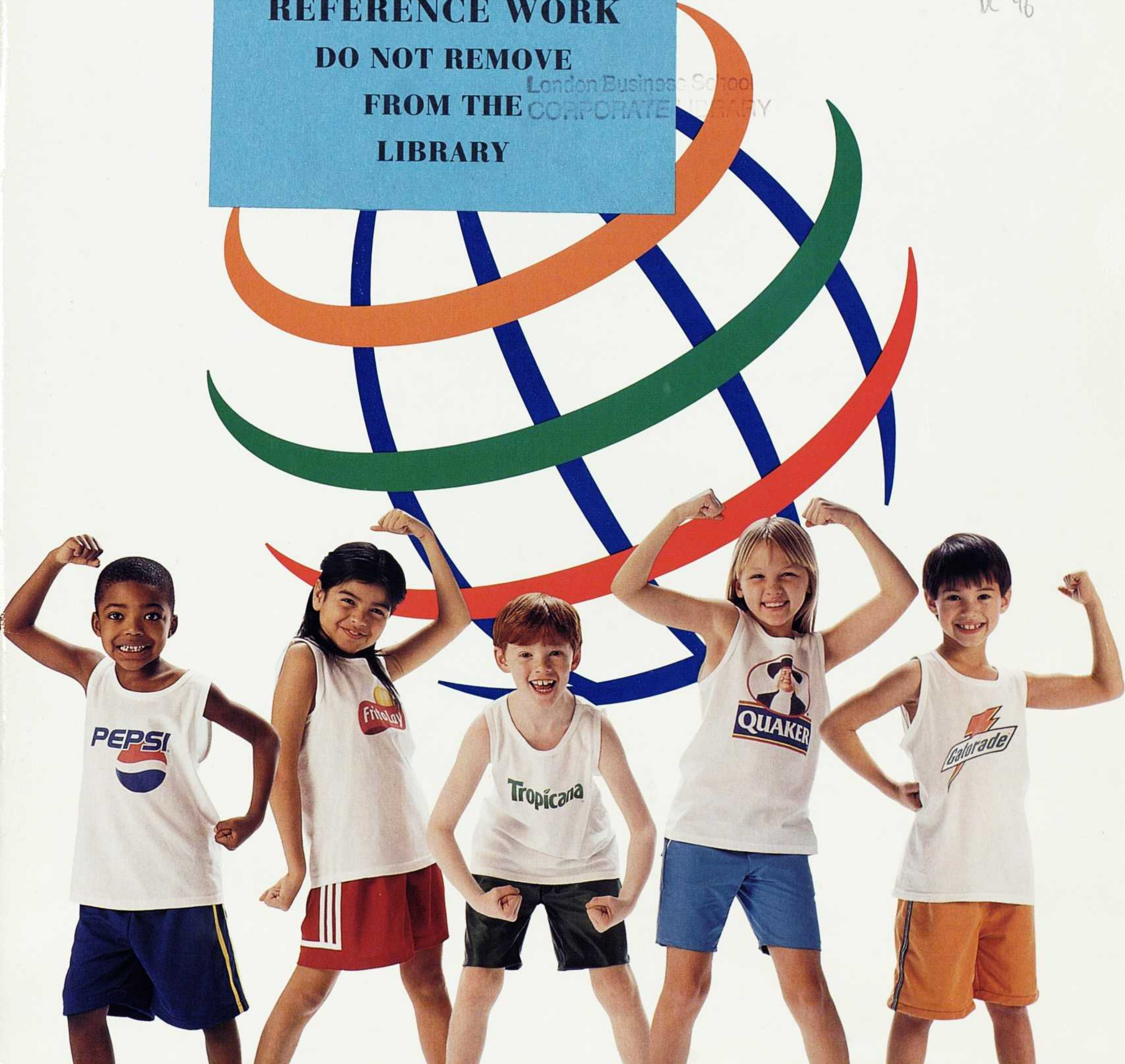
PEPSICO 2001

Built to GROW



Financial Highlights

($ in millions except per share amounts; all per share amounts assume dilution)

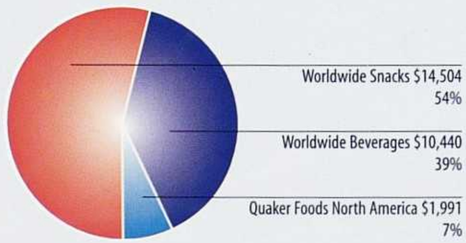
	As Reported			Comparable[b]		
	2001	2000	% Chg[a]	**2001**	2000	% Chg[a]
Summary of Operations						
Net sales	**$26,935**	$25,479	6	**$26,935**	$25,185	7
Segment operating profit	**$ 4,776**	$ 4,355	10	**$ 4,776**	$ 4,287	11
Net income	**$ 2,662**	$ 2,543	5	**$ 3,002**	$ 2,610	15
Net income per common share	**$ 1.47**	$ 1.42	4	**$ 1.66**	$ 1.46	14
Other Data						
Net cash provided by operating activities	**$ 4,201**	$ 4,440	(5)			
Common share repurchases[c]	**$ 1,716**	$ 1,672	3			
Dividends paid	**$ 994**	$ 949	5			
Long-term debt	**$ 2,651**	$ 3,009	(12)			
Capital spending	**$ 1,324**	$ 1,352	(2)			

(a) Percentage changes are based on unrounded amounts.

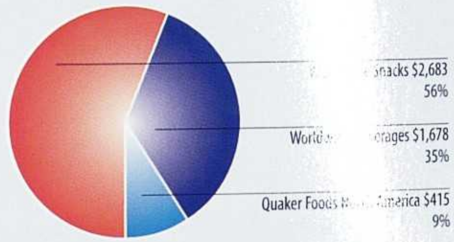
(b) For comparative purposes, results exclude the costs associated with our merger [illegible] Quaker Oats Company, other impairment and restructuring charges, the 53rd week in [illegible] [illegible]rious Quaker one-time items. The comparable information does not purport to repr[illegible] our results of operations would have been had such transactions not occurred nor [illegible] effect to any other events. The segment discussions following the Chairman's Letter [illegible]esented on this basis.

(c) Includes pre-merger Quaker common share repurchases.

Net Sales
Total: $26,935
$ In Millions



Segment Operating Pr[illegible]
Total: $4,776
$ In Millions



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Dear Fellow Shareholders: PepsiCo had an outstanding 2001.

This past year was particularly significant for our company. We completed another big chapter in our journey to transform PepsiCo into *the* premier consumer products company, by focusing on making this the very best convenient food and beverage enterprise in the world. The landmark merger with The Quaker Oats Company in August positions us to accelerate and sustain our future growth. The year was also outstanding because our entire family of businesses performed well despite the distractions that a big merger typically creates.

On a comparable basis:

- Every division produced higher revenue and operating profit.
- Earnings per share and segment operating profit grew at double-digit rates every quarter, for the second year in a row.
- Return on invested capital improved nearly 100 basis points to 26%.
- Operating cash flow was a very robust $2.9 billion — *after* capital expenditures, other investments and a $421 million contribution to our pension plan.
- Our balance sheet remained strong, as net debt declined 21% to $1.4 billion.
- We returned $2.7 billion to shareholders in dividends and share repurchases.

Driving these important financial results was a team of more than 140,000 highly talented and committed people across the globe. While many other companies struggled in 2001, it was inspiring to see the people of PepsiCo and Quaker stand as one remarkable team. The fact that they succeeded in bringing together two great companies *and* delivering outstanding results in the marketplace makes me feel very good about our future.

Our achievements in 2001 are a testament to our employees' focus and determination — and their wealth of experience. Our top 150 executives average more than 15 years of tenure with us.

In a very tough year for stocks, ours outperformed our industry and the broader markets. PepsiCo shares held on to the 40% gain they made in 2000. Although we are disappointed that our stock closed 2001 essentially unchanged, we realize that the Dow Jones Industrial Average declined 7%, the S&P 500 declined 13% and the S&P Beverage Index declined 15%.

Growth and Integrity

The 2001 results also tell me that people across this company recognize that the single biggest reason for the merger is *growth*.

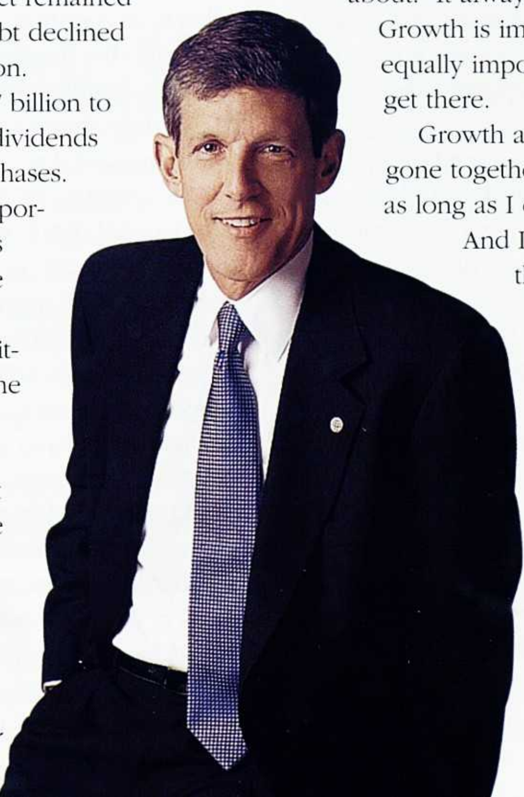
Growth, after all, is what PepsiCo is about. It always has been.

Growth is important. But equally important is how you get there.

Growth and integrity have gone together around here for as long as I can remember.

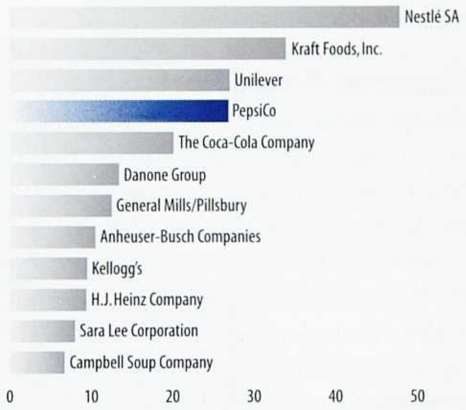
And I will do everything in my power to ensure that continues.

In fact, we've literally designed PepsiCo so we can fulfill our ambitions for growth without ever having to cut corners, compromise our integrity or otherwise violate the sacred trust placed in PepsiCo by our shareholders, our employees and so many others.



Steve Reinemund
Chairman and
Chief Executive Officer

World's Leading Food and Beverage Companies
$ Sales in Billions



Those kids flexing their muscles on our cover reflect our effort to transform PepsiCo into a company capable of generating healthy growth in revenue, profit and market share — for many years.

That's why our cover says "Built to Grow."

It starts with a laser focus on "convenience." Convenient, easy-to-consume products are the fastest-growing part of the global food and beverage industry. Around the world, people are spending hundreds of billions of dollars each year on foods and drinks that fit their busy lifestyles. And they're spending more each year.

It's a vast opportunity.

It's also an area we know very well. We've been making and selling convenient products for decades. In that time we've become the leader in convenient foods and drinks in the United States.

Far more exciting, we're better equipped than any other company I know for continued success in this big, expanding worldwide market.

I say that because, in my view, PepsiCo has a unique culture reflecting

a combination of strengths that no one else can match:

- Superior Brands
- Exceptional Value
- Unbeatable Quality
- Unrivaled Service
- Creative Innovation
- Great People

Superior Brand Portfolio

History shows that a truly outstanding brand, carefully nurtured, can drive healthy growth for many years — maybe forever.

So rather than try to manage a large number of small brands, we've built a highly focused portfolio offering many of the world's best-loved foods and beverages — muscular brands with enduring appeal.

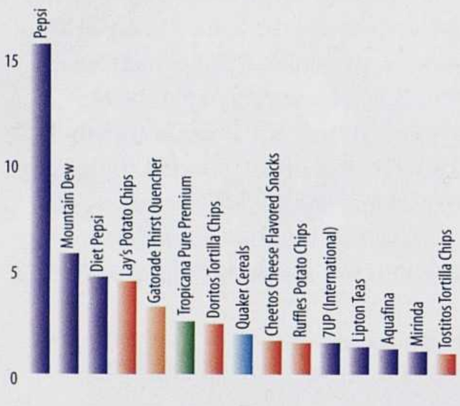
Our portfolio includes 15 brands that each generate more than $1 billion in annual retail sales. That's more than any other food and beverage company.

Our portfolio also is remarkably well balanced. The appeal of our brands spans every time of the day, every consumer age group and every demographic category. Our brands also serve a wide range of consumer needs, from fun and indulgence to health and nutrition.

With time-starved consumers hungry for convenience, our brand lineup gives us boundless opportunities, around the clock, even in our most developed markets. In the United States, for example, we've captured only about a quarter of the morning convenient eating and drinking occasions. And the fact is, in any part of the day, we have lots of room to grow.

Largest PepsiCo Brands

Retail Sales $ in Billions



The addition of Quaker brought us two powerful brands: Quaker and Gatorade. Both brands are icons, well known by consumers and very well regarded. They also provide us with two more platforms for growth, giving us license to move into new territories.

Exceptional Value

We realize no one *has* to buy our products. So we know that we must provide those products at prices that consumers consider a good value. To do that we maintain a maniacal focus on reducing costs and finding better ways to make, move and sell our products. That focus on costs is relentless and very much a part of our culture. Providing products at prices that appeal to consumers drives growth, scale efficiencies and ultimately success — for PepsiCo and its retail customers.

Striving For Perfect Quality Every Day

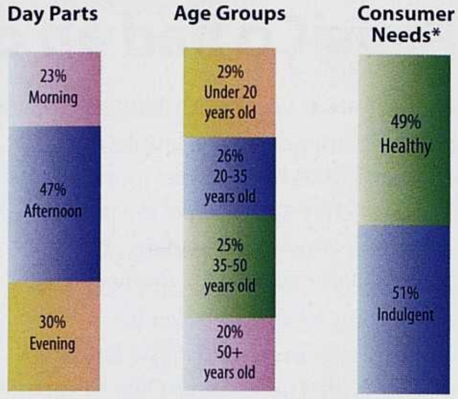
We design and manufacture our products with one overarching goal: excellence. Our people care deeply about our products, and a visit to any of our plants or other facilities makes that very clear:

- At Tropicana we are passionate about oranges from the grove to the glass.
- Frito-Lay people are committed to quality from the potato seed to the kitchen shelf.
- At Pepsi we have long been committed to the "Pepsi Challenge" because we know we have the product consumers prefer, and we are proud of it.
- Since its birth at the University of Florida in the 1960s, Gatorade has been dedicated to providing thirsty athletes the finest rehydration drink on the market — no compromise.
- And Quaker has been offering some of the world's finest wholesome cereals for more than a century.

Unrivaled Distribution Service

We go to market through a distribution network offering extraordinary strength

Balanced Portfolio



* Needs consumers say they are satisfying when they consume our products.

and flexibility. Our goal is to put our products within easy reach of the consumer. Our distribution systems are designed to help us do that. Because practices and customs vary by market and because retail customers have different needs, we have several successful models for service that we use around the world.

- ***Direct Store Delivery***

Vast and powerful direct store delivery (DSD) systems are at the heart of that network. Through these systems we take snacks and drinks directly to tens of thousands of distribution outlets, from the tiniest convenience store to the largest warehouse outlet. We and our bottlers actually take products into the store and set them on the shelves. That helps to ensure that our products are fresh and that fragile items like potato chips are handled with care. It also allows us to merchandise our brands for maximum visibility and appeal.

Our systems can move new products into national distribution very quickly, sometimes as fast as a week. And because we call on retail customers so frequently, we know very quickly how a new product is selling.

At the same time, DSD provides big financial benefits to retailers. Since we handle the products and do the merchandising, retailers save on labor. And because our products typically are sold and restocked every few days, while retailers pay for them on 30-day cycles, we add a lot to a store's cash flow.

Take, for example, big U.S. retailers. PepsiCo contributes more than any

other manufacturer to their revenue growth, profit growth and cash flow. That's a powerful incentive to sell more of our brands.

In international markets we sometimes adapt our distribution to reap many benefits of traditional DSD — particularly the merchandising capabilities and the reach into many retail outlets — without the costs that would burden a young or subscale business.

- ***Broker-Warehouse Distribution***

For some of our products, traditional broker-warehouse distribution is as effective and more economical than DSD. Under this system, third-party distributors move our products to stores, and store employees stock the shelves. That generally works best for products that are less fragile (than potato chips, for example), less perishable and less likely to be "impulse" purchases, products like Gatorade, Quaker Oats, Tropicana Twister or Cap'n Crunch cereal.

The merger dramatically expanded our broker-warehouse distribution capability by adding the very large and efficient warehouse system used for Quaker and Gatorade products. To leverage that strength, we've combined that system with Tropicana's. We're also using the Quaker-Gatorade system very selectively for certain Frito-Lay snacks that are better suited to warehouse distribution.

- ***Vending and Foodservice***

Every year consumers buy more snacks and beverages from vending machines and the "foodservice" companies that serve stadiums, office buildings, colleges and similar places. We see this as a big opportunity. By combining capabilities of Frito-Lay, Tropicana and Quaker, we created one of the biggest vending and foodservice sales forces in North America, a 600-person team that already generates well over $1 billion in annual sales.

Exceptional Innovation Capabilities

Without question, innovation is the single greatest driver of growth for PepsiCo and our product categories. After years of making innovation a high priority, PepsiCo has experience and capabilities unrivaled in our industry.

Frito-Lay has by far the world's greatest institutional knowledge of snacks and snack consumption. Pepsi-Cola, a longtime leader in new products and packaging, recently added the creative resources of SoBe. And the combination of the Gatorade Sports Science Institute and the Tropicana Nutrition Center gives us unmatched expertise in the growing segment of "functional" beverages that offer nutrition or other health benefits consumers value.

The beauty of innovation is the way it differentiates our products in the marketplace. New products and packages — or changes to existing ones — give consumers exciting new reasons to buy our brands. Equally important, innovation gives retailers a great new reason to feature them prominently.

That's a big competitive advantage. So we grab every opportunity to differentiate our products through innovation.

It starts, literally, on the farm. To find the perfect "chipping" potato for every climate and agricultural condition, Frito-Lay has developed thousands of proprietary potato seed varieties not available to other manufacturers. Similarly, Tropicana has exclusive use of patented fruit varieties that allow it to produce not-from-concentrate juices with superior flavor, color and aroma throughout the year.

Differentiation also occurs in manufacturing. Frito-Lay patented a new process to produce more intense flavors in its Ruffles Flavor Rush snacks by coating the entire chip, front and back. For Tostitos Scoops, Frito-Lay developed technology to make tortilla chips, typically flat, in a three-dimensional spoonlike shape suited to scooping salsa or dip. Sounds easy. It's not.

New, more convenient packages also help us stand out from the competition. Tropicana's new 14-ounce plastic orange juice bottle is elegantly contoured to fit easily in the hand and the automobile cup holder. Similar thinking inspired Frito-Lay to create Go Snacks. These smaller versions of our traditional brands come in a plastic canister that also fits easily in hand and cup holder. On-the-go consumers can "pour" the snacks directly into their mouths. In one more example of innovative packaging, the Gatorade E.D.G.E. bottle is ergonomically designed for optimal thirst quenching.

In a business where consumers demand great taste, innovative flavors also make our products distinctive. For example, Mountain Dew Code Red, a new version of Mountain Dew "with a rush of cherry flavor," hit the market in 2001 and became one of the most successful new soft drinks ever.

Great People

The last competitive advantage of PepsiCo I'll mention is less tangible, but every bit as fundamental to our success.

It involves people and values.

I believe that, as a company, we are defined by our relationships with you — our employees, our partners, our customers, our consumers and, of course, our shareholders. Our destinies are very directly linked: *As we grow, you should grow as well.*

We are going to grow as long as we continue to attract, develop and retain world-class people. As part of this effort to have a world-class team, we strive to foster a diverse and inclusive

work environment — one that allows *all* our employees to achieve professional growth and fulfillment, without regard to gender, ethnicity or other differences. That provides two very important benefits. It helps us attract bright, talented people from a wide range of backgrounds. It also helps us serve an increasingly diverse population of customers and consumers.

This is *so* important to our future that we've made it part of our compensation system. Part of our executives' compensation is linked to the achievement of diversity goals — related to hiring, promotion and turnover — within the context of each operating unit's Affirmative Action Plans. And, in fact, our divisions achieved all their diversity goals in 2001.

With business partners, we try to engage in relationships that are mutually beneficial. We'll achieve sustainable success only if our partners — our bottlers, for instance — succeed alongside us.

Our retail customers — from the multinational supermarket chain to the single unit convenience store — should be able to earn a fair and reasonable profit selling our products, and we should provide them with the best opportunities for sales and profit growth.

And our consumers, the people who eat and drink what we make, should get great quality and value every time they buy our brands.

PepsiCo + Quaker: A Recipe for Growth

Merging PepsiCo and Quaker in August 2001 created growth opportunities and cost-saving benefits that span virtually every PepsiCo business.

We began almost immediately to capture millions of dollars in merger "synergies" — cost savings and revenue enhancement opportunities. We expect the total to reach $400 million a year by 2005.

Quaker's Gatorade brand, the world's leading sports drink, has fundamentally strengthened our leadership in non-carbonated beverages, the fastest-growing part of the industry.

The Quaker brand, a symbol of wholesome nutrition, provides an ideal way for Frito-Lay to expand beyond salty snacks. It offers a platform for creating nutritious snacks that appeal to a wide range of consumers throughout the day.

Adding Quaker snacks to the vast Frito-Lay direct-store delivery system is putting those products into thousands more retail outlets and giving Frito-Lay sales representatives a broader snack portfolio to offer customers.

Quaker's large broker-warehouse distribution system is taking Tropicana products into many more stores, at a lower cost. It also provides a way to distribute certain new kinds of Frito-Lay snacks best suited to warehouse distribution.

Reflections

This coming May, Jack Murphy will retire after 18 years on our board of directors. Jack has been an outstanding director and adviser to four generations of PepsiCo leaders. I count myself very fortunate to have benefited from his advice, and I want to thank him for his great contribution.

We also added a new director in February 2002: Dr. Daniel Vasella, chairman and CEO of Basel, Switzerland-based Novartis, one of the world's largest pharmaceutical companies. Dan is a respected leader whose scientific and medical background will be particularly valuable as we offer more "functional" foods and drinks.

I am very pleased to welcome Bob Morrison to the PepsiCo family. He brought a well-managed Quaker team to our new company and has done a superb job in leading the integration of our businesses into one new PepsiCo.

Indra Nooyi, in her new role as our president, had a very successful year. Among her many responsibilities, she was instrumental in leading us through the challenging regulatory approval process required for our merger.

I am very proud of our division presidents. They all distinguished themselves during this past year by achieving record-breaking results while leading their teams through the many changes that were required by the merger. We are a stronger company and a stronger executive team as a result of this year's challenges.

It is a great privilege to assume leadership of the company from Roger Enrico. The third CEO in PepsiCo's history, Roger distinguished himself as a leader, like his predecessors Don Kendall and Wayne Calloway. I have had the privilege of learning from all three of these remarkable leaders, and every one has changed my life in very important ways. Each had his own style of leadership, but all were bound together by a set of values that makes PepsiCo a very special company.

"Growth with Integrity" is an idea that binds us all together, and it certainly was a hallmark of Roger's tenure. He made many contributions to our company during his 30 years. However, none was as significant as his leadership during the past five years, as he reshaped PepsiCo for the new millennium. As Roger retires from the company this year, he leaves with the deepest respect and best wishes of the entire PepsiCo team and particularly the Reinemund family.

Looking forward, PepsiCo is stronger than ever. We're focused and beautifully positioned to grow. And we continue to close in on our ultimate goal of being the world's very best consumer products company. I am proud of the entire PepsiCo team and look forward to the growth challenge ahead.

Steve

Steve Reinemund
Chairman of the Board and
Chief Executive Officer

Frito-Lay North America

Frito-Lay North America (FLNA), our largest operating division, continued to build its record of outstanding performance.

FLNA posted healthy growth on virtually every key measure. Volume increased 3%. Revenue grew 6%. And operating profit rose 10%.

FLNA exemplifies the consistency we strive for at PepsiCo. The fourth quarter of 2001 marked the division's 12th consecutive quarter of reported double-digit profit growth and its 16th consecutive quarter of market share growth.

It's not surprising. As big and successful as FLNA is, it remains a lean and powerful growth machine.

FLNA's remarkable 15,000-route direct store delivery system gets our fresh and fragile products to market with amazing speed and efficiency. It reaches nearly half a million retail outlets weekly, including supermarkets, club stores, convenience stores and dozens of other points of sale. And each year FLNA's distribution system grows, adding nearly 200 routes in 2001.

Year after year, FLNA uses innovation to build and enhance its portfolio of powerful brands, which includes 8 of the 10 biggest-selling salty snacks in U.S. supermarkets. In 2001 growth was led by several of our core brands: Lay's, Doritos, Cheetos and Fritos. New products were a big factor behind that growth. Among them: Lay's Bistro Gourmet potato chips, Cheetos Mystery Colorz snacks, Doritos Extremes tortilla chips and Fritos Flavor Twists corn snacks.

FLNA also took a giant step in its strategy to grow beyond traditional salty snacks. After the merger with Quaker, FLNA created a unit totally dedicated to opportunities in the broader $50 billion market for convenient foods. It combines Frito-Lay's businesses of cookies, crackers, nuts, meat snacks and Cracker Jack treats with Quaker's business of granola bars, fruit and oatmeal bars, energy bars and rice snacks. This unit, which already generates nearly $1 billion in revenues, represents a very important and exciting new growth platform.

Behind the scenes, FLNA made progress in productivity efforts designed to reduce costs and drive growth. A multiyear reconfiguration of the FLNA distribution system is lowering delivery costs and enabling our trucks to carry nearly twice as many different items. That will allow us to continue adding innovative products to our portfolio for many years without distribution constraints.

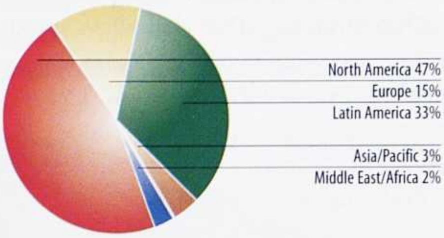
Frito-Lay International

Frito-Lay International (FLI) continued to build its brands and expand its presence in more than 40 countries with great results, even amid difficult macroeconomic conditions.

Total volume grew 6%, with salty snack volume up 9%, the highest rate of any PepsiCo division. And despite the negative impact of weaker foreign currencies, revenue was up 7% and operating profit increased 17%.

Worldwide Frito-Lay Volume by Region

% Volume

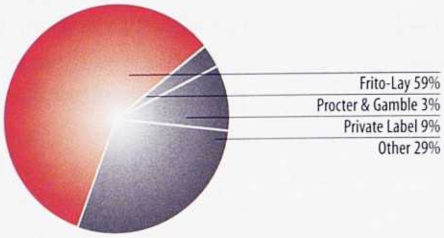


The Frito-Lay system serves consumers in more than 120 countries.

U.S. Snack Chip Industry

% Volume

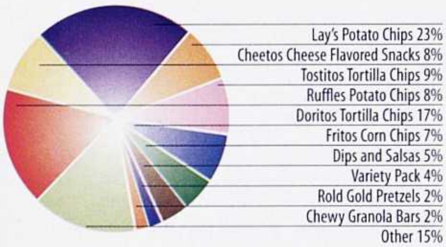
Includes potato chips, tortilla chips, extruded snacks and pretzels. Excludes Wal-Mart.



Frito-Lay is the clear industry leader, with the scale to efficiently reach more than 472,000 retail outlets weekly.

Frito-Lay North American Product Mix

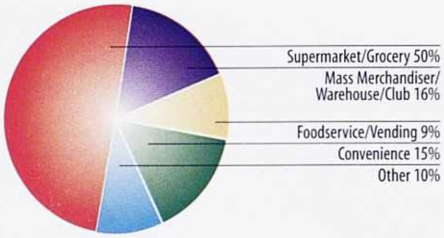
% Sales



Frito-Lay's broad portfolio of products and packages provides great tasting, convenient snacks for every occasion — with a meal, relaxing or on-the-go.

U.S. Frito-Lay Distribution Channels

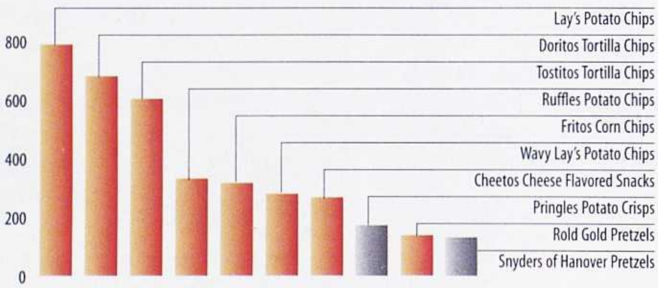
% Sales



Frito-Lay's nearly 24,000-person sales force distributes products directly to retail outlets, ensuring freshness and quality.

Top-Selling Snack Chip Brands in U.S. Supermarkets

$ Sales in Millions

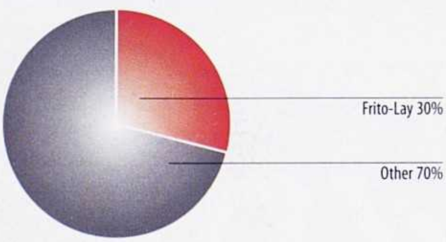


Frito-Lay sells 8 of the top 10 snack chip brands in supermarkets, the largest retail outlet.

Snack Chip Industry Outside North America

% Sales

Includes potato chips, tortilla chips and extruded snacks. Excludes pretzels.



Frito-Lay's market share outside North America is eight times larger than its nearest competitor.

Frito-Lay Snack Chip Share in Markets Outside the U.S.

Includes potato chips, tortilla chip and extruded snacks. Excludes pretzels.

Frito-Lay has established a strong position in every geographic area.

The volume advance was driven by strong results in Europe, Brazil, Poland and the United Kingdom, as well as the impact of acquisitions in Colombia and Egypt. The greatest contributions to operating profit came from Mexico and the United Kingdom, the division's two largest markets.

The volume growth led to share gains in most major markets in Latin America, Europe and Asia.

In a consumer product category where demand is highly elastic, one of the most effective ways to drive growth is to consistently generate excitement among consumers. As the world's largest international snack company, FLI is able to do that better than any snack competitor.

With the experience and technical resources of the global Frito-Lay system, FLI is a perennial leader in new products. In the United Kingdom, for example, FLI's Walkers snack unit drove growth with new products like Heinz ketchup-flavored potato chips, to Squares, a square-shaped potato snack, to new flavors of Dippas brand tortilla chips.

FLI also creates excitement with creative marketing and promotions. As the only snack company with a broad international presence, FLI has the scale and resources to identify emerging consumer trends and tie in globally with popular movies and other big events with high potential to drive sales.

FLI's promotion with Pokémon is a perfect example. After using tie-ins with Pokémon to drive extraordinary growth in Mexico and other Latin American markets in 2000, FLI brought the Pokémon phenomenon to all its markets in Europe, the Middle East and Africa in 2001 — with exceptional results once again.

FLI also marked an important structural change in 2001. Following the merger of PepsiCo and Quaker, the Quaker international food businesses became part of the FLI portfolio. Integration of those businesses will yield millions of dollars in cost savings.

Pepsi-Cola North America

Pepsi-Cola North America (PCNA) had an excellent year, as its long-standing strategic focus on building a broad portfolio of carbonated and non-carbonated beverages paid off once again.

With volume up 4%, revenue up 18% and operating profit up 13%, PCNA grew significantly faster than its largest competitor. In fact, PCNA gained share while our biggest competitor's share declined.

Innovation was a big driver of that growth. PCNA brought an array of exciting new products to the marketplace.

Much of the innovation focused on carbonated soft drinks. Pepsi Twist, which is Pepsi with a hint of lemon, helped spark growth in our very large and important cola business. Within 30 days of launching Pepsi Twist nationally, Pepsi bottlers had sold more than 10 million cases.

In its first full year on the market, lemon-lime Sierra Mist generated very healthy sales and, where it was available, drove significant growth in the lemon-lime category. Meanwhile, Mountain Dew Code Red, which turned up the heat in America's long-standing love affair with Mountain Dew, contributed to strong Mountain Dew growth of 6%.

While traditional carbonated soft drinks account for the bulk of our beverage volume, as consumers seek greater variety, our non-carbonated drinks have been growing very rapidly, with volume up more than 30% in 2001. It's not surprising. Over the last decade we have built the leading portfolio of non-carbonated drinks — including Aquafina bottled water, Lipton ready-to-drink teas, Frappuccino coffee drinks, Dole juices and drinks and SoBe beverages.

Aquafina, already the top-selling single-serve bottled water in the United States, grew about 45% in 2001. The launch of a new "rocket" shaped bottle helped drive U.S. growth of more than 20% in Lipton Iced Tea. And additional volume growth came from products under the Dole and SoBe brands.

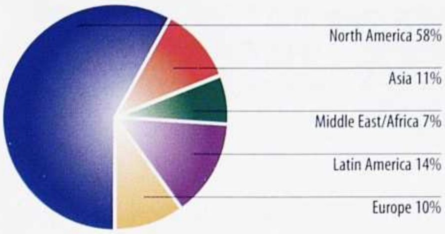
PCNA's goal is to continue to be the *fastest growing* broad-based beverage company, as it innovates to build its portfolio. It kicked off 2002 with the launch of a new and improved Lipton Brisk ready-to-drink tea. And there are more exciting products on the way.

PCNA, working with Frito-Lay North America (FLNA), also added excitement with marketing programs in 27 urban centers across the United States. They included merchandising, promotions and advertising that captured the attention of African-American and Latino consumers. PCNA and FLNA activated more than 5,500 accounts and achieved volume gains of more than 25% in participating stores. Along the way, PepsiCo received several awards for multicultural advertising.

PepsiCo Worldwide Beverage Volume by Region

% Volume

Includes Pepsi-Cola North America, PepsiCo Beverages International, Gatorade/Tropicana North America.

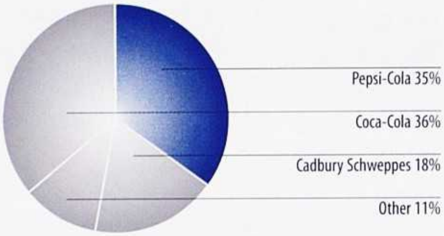


Almost half of PepsiCo beverage sales are outside North America.

U.S. Carbonated Soft Drink Industry

% Volume

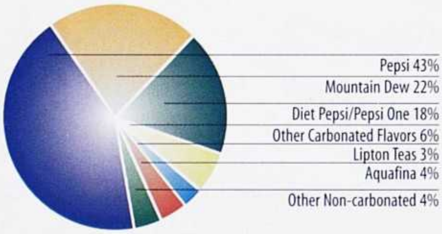
Includes combined Supermarkets, Drug Stores, Mass Merchandisers, Convenience and Gas Stores. Excludes Wal-Mart.



Pepsi-Cola's carbonated soft drink brands gained nearly a full share point.

Pepsi-Cola North America Product Mix

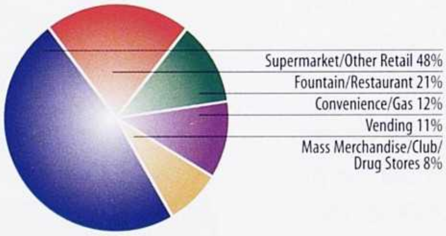
% Volume



Pepsi-Cola's broad portfolio saw growth in both carbonated and non-carbonated beverages.

U.S. Pepsi-Cola Soft Drink Distribution Channels

% Volume

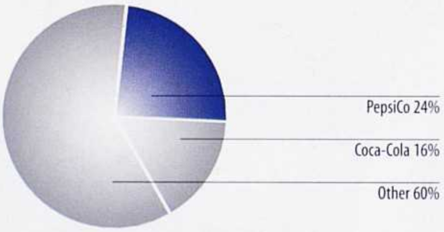


Pepsi-Cola's distribution system gets new products to market quickly. Volume grew in all channels.

U.S. Non-carbonated Beverage Market

% Volume

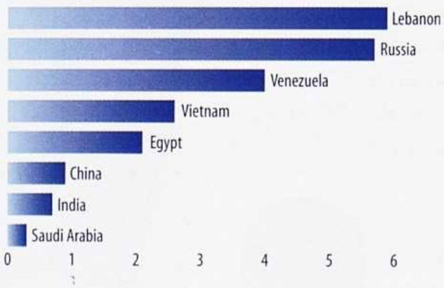
Includes bottled water, ready-to-drink coffee and tea, chilled juices and sports drinks.



PepsiCo continues to rapidly build its non-carbonated beverage business — which is 30% larger than our chief competitor's.

Share Gains in Top Markets Outside North America

Share points gained in 2001.

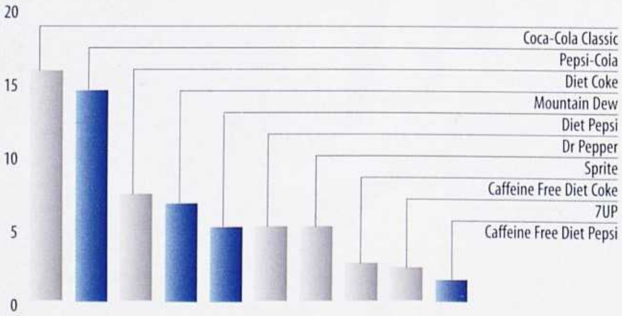


Pepsi-Cola gained share in many of its top markets outside North America.

U.S. Top-Selling Carbonated Soft Drinks

% Share of Market

Includes combined Supermarkets, Drug Stores, Mass Merchandisers, Convenience and Gas Stores. Excludes Wal-Mart.



Pepsi-Cola sells 4 of the top 10 carbonated soft drink brands in measured distribution channels.

PepsiCo Beverages International

PepsiCo Beverages International (PBI), formed after the PepsiCo-Quaker merger by combining the international operations of Pepsi-Cola, Gatorade and Tropicana, posted a very solid performance in its first year.

Volume was up nearly 5%, matching our largest competitor. Revenue was up 2%. Operating profit was up 31%.

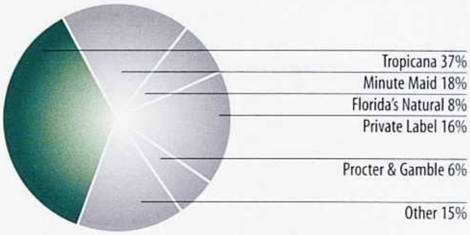
The volume growth, reflecting strength in Russia, China, Brazil and Thailand, contributed to important advances in market share. In fact, PBI gained share in most of its top markets, with particular progress in Lebanon, Russia, Venezuela, Vietnam and Egypt.

Here too, innovation was a big factor. Extensions of the flagship Pepsi trademark helped drive growth in a variety of markets. For example, Pepsi Limón and Pepsi Twist — in both cases, Pepsi with a hint of lemon — proved popular in Mexico and Saudi Arabia. The launch of Mountain Dew contributed significantly to growth in Russia. And new additions to the established lineup of Mirinda brand flavors were launched in more than 30 markets.

As an operating unit, PBI gains important advantages by bringing together Pepsi-Cola, Gatorade and Tropicana. Combining the general and administrative functions of these businesses around the globe yields very substantial cost savings.

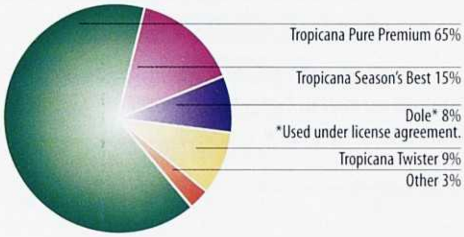
PBI also has an outstanding foundation for driving growth in non-carbonated beverages. The combination of Gatorade, Tropicana and Pepsi's water makes a powerful portfolio for a wide range of needs — from simple refreshment to nutrition to postexercise hydration — for consumers around the world.

U.S. Chilled Juices and Drinks Market
% Retail Sales in Supermarkets



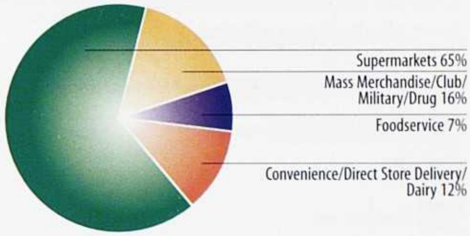
Tropicana has twice the share of its leading competitor.

Tropicana U.S. Product Mix
% Volume



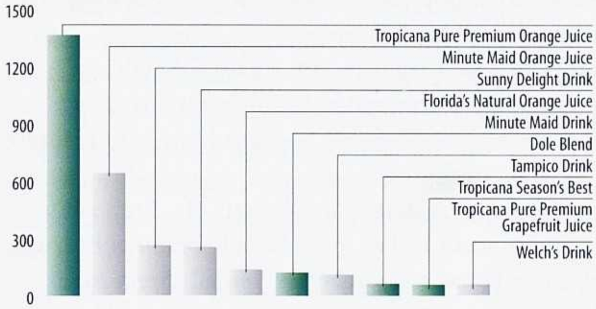
Innovations such as Low Acid Pure Premium keep Tropicana's brand portfolio strong.

U.S. Tropicana Distribution Channels
% Volume



Tropicana trains travel from Florida to New Jersey to deliver healthful, delicious juice.

Top-Selling Refrigerated Juice Brands in U.S. Supermarkets
$ Sales in Millions



Tropicana sells 4 of the top 10 refrigerated juice brands in U.S. supermarkets.

Gatorade/Tropicana North America

In its first year as a combined operating division, Gatorade/Tropicana North America (GTNA) posted very solid results.

Volume grew 4%. Revenue increased 5%. Operating profit was up 7%.

Gatorade continued to expand its remarkable franchise, leading the volume growth with three new flavors — Starfruit, Passion Fruit and High Tide Frost — which helped drive Gatorade volume growth of 6% in 2001. That growth led to sales gains in nearly every measured U.S. retail channel and market share gains in both the drug store and convenience store channels. Gatorade's 11% sales growth in 2001 matched its 10-year compounded annual growth rate — reflecting the continued strong momentum of this remarkable brand.

U.S. Gatorade Growth in Distribution Channels

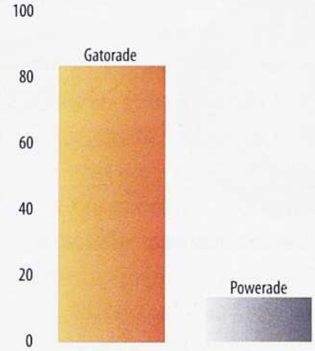
% Sales Growth

Gatorade growth in nearly all distribution channels resulted in double-digit U.S. sales growth.

*Includes foodservice, vending, small grocery and deli.

Market Share of Top-Selling Sport Drink Brands

% Share of market in combined Supermarkets, Convenience and Drug Stores



Gatorade sells more than six times as much as its nearest competitor in major U.S. channels.

Tropicana also contributed to the volume gain, as fortified juices continued to post double-digit growth.

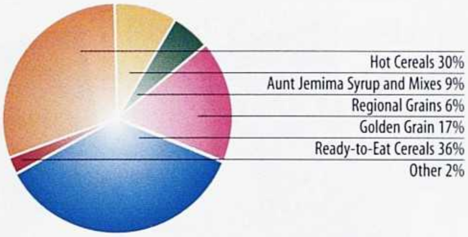
As strong as Gatorade and Tropicana are today, growth prospects for these brands were enhanced significantly by the merger and the subsequent placement of the two brands in a single operating division.

Gatorade and Tropicana are a natural combination. Both offer something many consumers want today: "functional" benefits beyond refreshment. By combining Tropicana's relatively small direct sales force with the much larger Quaker-Gatorade system, the brands can be distributed more widely and efficiently. More of those retail accounts can be called on directly, rather than through third parties. And it can be done at a lower cost.

Gatorade and Tropicana also benefit by combining their "hot fill" manufacturing — a process used for many non-carbonated drinks — with that of Pepsi-Cola North America. Managing the manufacturing infrastructure across a portfolio of brands is more efficient. Among other things, it offsets some of the seasonal variations in demand for individual brands.

Quaker Foods North America Product Mix

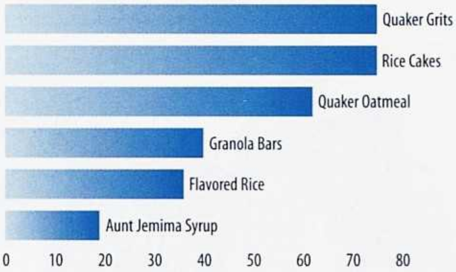
% Sales



Quaker's portfolio of popular brands offers consumers great taste, variety and nutrition.

Quaker Category Leaders

% Share of U.S. Supermarket Sales



Number 1 brands are the driving force behind Quaker's success.

Quaker Foods North America

Quaker Foods North America (QFNA) — with beloved brands ranging from Quaker Oatmeal and Life cereal to Cap'n Crunch and Aunt Jemima syrup — produced solid results overall.

Volume was down slightly from the prior year, as expected. Revenue grew 1%. Operating profit was up 6%.

QFNA, which continued to generate healthy cash flow, saw its greatest growth driven by innovation. That was particularly evident in hot cereals. Quaker Oatmeal had another outstanding year, with sales up 10%, as new products like Cinnamon Roll, Quaker Oatmeal Nutrition for Women and Quaker Instant Oatmeal Express proved big hits. Those innovations drove healthy hot cereal volume growth despite an unusually warm autumn, when hot cereal consumption typically rises. It was the fourth warmest fall in more than 100 years.

Fierce competition in ready-to-eat cereals, however, offset the growth in other parts of QFNA. That competition, in both pricing and promotions, led to a modest decline in ready-to-eat cereal volume and revenue.

Looking ahead, innovation is expected to drive positive volume growth in 2002, as QFNA introduces a variety of new products, including new varieties of Rice-A-Roni, Pasta Roni, a new Cap'n Crunch line extension and new hot cereal flavors.

A PepsiCo Shopping List

Frito-Lay Brands

Lay's potato chips
Lay's Bistro Gourmet potato chips
Lay's kettle cooked potato chips
Wavy Lay's potato chips
Baked Lay's potato crisps
Maui Style potato chips
Ruffles potato chips
Baked Ruffles potato chips
Ruffles Flavor Rush potato chips
Doritos tortilla chips
3D's snacks
Tostitos tortilla chips
Baked Tostitos tortilla chips
Santitas tortilla chips
Fritos corn chips
Cheetos cheese flavored snacks
Rold Gold pretzels
Funyuns onion flavored rings
Sunchips multigrain snacks
Cracker Jack candy coated popcorn
Chester's popcorn
Grandma's cookies
Munchos potato crisps
Smartfood popcorn
Baken-ets fried pork skins
Oberto meat snacks
Frito-Lay dips & salsas
Frito-Lay nuts
Doritos, Cheetos & Chester's snack crackers
Fritos, Tostitos & Doritos snack kits

Outside the U.S.

Bocabits wheat snacks
Crujitos corn snacks
Fandangos corn snacks
Hamka's snacks
Niknaks cheese sticks
Quavers potato snacks
Sabritas potato chips
Twisties cheese snacks
Walkers potato crisps
Walkers Square potato snacks
Walkers French Fries potato sticks
Walkers Monster Munch corn snacks
Miss Vickie's potato chips
Munchies snack mix
Gamesa cookies
Dippas
Sonric's sweet snacks

Pepsi-Cola Brands

Pepsi-Cola
Caffeine Free Pepsi
Diet Pepsi
Caffeine Free Diet Pepsi
Pepsi ONE
Wild Cherry Pepsi
Pepsi Twist
Mountain Dew
Diet Mountain Dew
Mountain Dew Code Red
Mug
Sierra Mist
Slice
Lipton Brisk (Partnership)
Lipton Iced Tea (Partnership)
Dole juice drinks
FruitWorks juice drinks
Aquafina purified drinking water

Frito-Lay Brands

Tropicana Brands

Quaker Brands

We offer more than 500 products. Here are some of them.

Pepsi-Cola Brands

Gatorade Brands

Frappuccino coffee beverages (Partnership)
SoBe juice drinks and teas
AMP

Outside the U.S.

Mirinda
7UP
Pepsi Max
Kas
Teem
Pepsi Limón
Pepsi Light

Gatorade Brands

Gatorade thirst quencher
Gatorade Frost thirst quencher
Gatorade Fierce thirst quencher
Gatorade Ice thirst quencher
Gatorade energy bar
Propel fitness water

Tropicana Brands

Tropicana Pure Premium
Tropicana Season's Best juices
Tropicana Twister juice drinks
Tropicana Smoothies
Tropicana Pure Tropics juices
Dole juices

Outside the U.S.

Loóza juices and nectars
Copella juices
Frui'Vita juices
Tropicana 100 juices
Alvalle Gazpacho

Quaker Brands

Quaker Oatmeal
Quaker instant oatmeal
Cap'n Crunch cereal
Life cereal
Quaker Toasted Oatmeal cereal
Quaker 100% Natural cereal
Quaker Squares cereal
Quisp cereal
King Vitaman cereal
Quaker Bagged cereals
Quaker Oh's! Cereal
Mother's cereal
Quaker rice cakes
Quaker Quakes rice snacks
Quaker Chewy granola bars
Quaker Fruit & Oatmeal bars
Rice-A-Roni side dishes
Pasta Roni side dishes
Near East couscous/pilafs
Aunt Jemima mixes & syrups
Quaker grits

Outside the U.S.

FrescAvena beverage powder
Toddy chocolate powder
Toddynho chocolate drink
Coqueiro canned fish
Sugar Puffs cereal
Harvest Crunch cereal
Cruesli cereal
Quaker Oatso Simple hot cereal
Scott's Porage Oats
Quaker Snack-a-Jacks rice cakes
Quaker Dipps granola bars

Corporate Citizenship

PepsiCo has a long tradition of corporate citizenship. In 2001 we continued to support a wide range of important efforts.

You can find out more about PepsiCo by going to our web site, **www.pepsico.com** and our Diversity@work web site, **www.pepsico.com/diversity.**

Community

Through the PepsiCo Foundation and our operating divisions, we made grants totaling more than $21 million.

The funds supported a variety of projects, focusing on education, diversity, humanitarian efforts and other areas of need. For example:

- $1 million went to fund business school scholarships at Howard University.
- More than $1.4 million was designated to create the Frito-Lay Leadership Center at California State University at Los Angeles. The funds support scholarships, a leadership program, an outreach effort aimed at high school students and a program to promote diversity.
- Nearly $2.3 million was donated to match employee contributions to more than 1,000 nonprofit organizations.

Plus, we contributed millions of dollars' worth of our products and services. We encourage employee volunteerism through a double-match of contributions to organizations in which they are active, as well as through volunteer days and other opportunities. In addition, PepsiCo is involved in hundreds of community organizations, including many focused on diversity and inclusion.

Suppliers

In 2001 we purchased a record $526 million worth of goods and services from minority-owned and women-owned companies.

Purchasing from minority-owned and women-owned businesses is a long-standing tradition at PepsiCo. Suppliers are invited to visit our web site to learn more.

Employees and Business Partners

As our markets grow increasingly diverse, we've made a very focused effort to promote diversity as a genuine competitive advantage.

Among other initiatives, this effort includes:

- Appointing executives dedicated to managing diversity.
- Developing multi-year plans to promote diversity.
- Creating diversity advisory boards.
- Creating networks to mentor and support minority and female employees.

These efforts have been widely recognized. *Fortune* magazine ranked PepsiCo among America's "Best Companies for Minorities." *Minority MBA* magazine named PepsiCo one of its "Top Companies for Minority MBAs."

Environment and Safety

Our environmental and safety records are strong.

Our beverage containers are recyclable and we have consistently reduced the amount of materials used to manufacture our containers. Pepsi-Cola cans contain more than 50% previously used aluminum cans. Our glass bottles contain up to 35% previously used glass. In the United States, Pepsi-Cola will begin using recycled plastic in 2002, with a goal of using 10% recycled material in its plastic bottles by 2005.

All our divisions recycle. Tropicana recycles orange and grapefruit peels as cattle feed; Frito-Lay similarly recycles leftover potato peels. Frito-Lay reuses millions of delivery boxes that once were discarded after a single use.

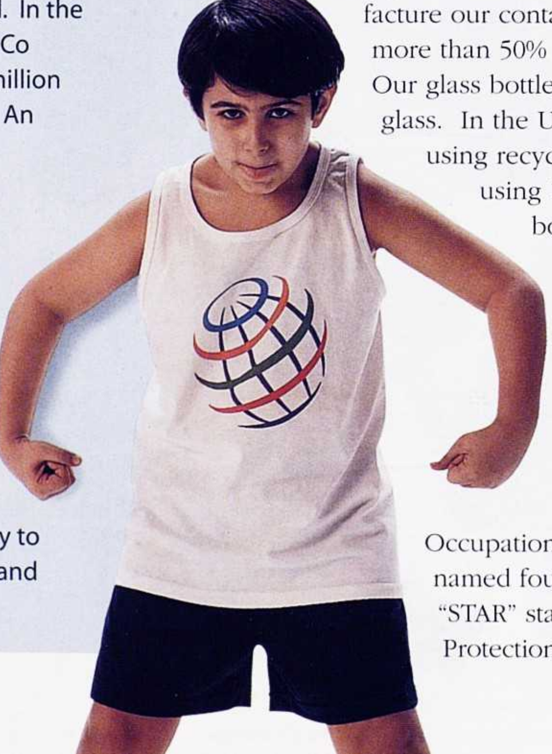
In the area of safety, the Occupational Safety and Health Administration named four more PepsiCo facilities to its top "STAR" status as part of the agency's Voluntary Protection Program.

Response to September 11th Disaster

On September 11th our world changed. In the wake of the terrorists' attacks, the PepsiCo Foundation committed more than $5 million to assist those affected by the disaster. An additional $1 million was given to the Robin Hood Foundation to help low-income victims.

While none of our employees were injured in the attacks, a number of them lost loved ones. To assist those families, employees raised more than $126,000 which PepsiCo matched.

We also completed an exhaustive review of our processes to insure that we are taking the precautions necessary to provide consumers with safe products and employees with a safe workplace.



Principal Divisions and Officers

Listings include age and years of PepsiCo experience.

Executive Offices

PepsiCo, Inc.
700 Anderson Hill Road
Purchase, NY 10577
(914) 253-2000

Co-Founder of PepsiCo, Inc.

Donald M. Kendall
Over 50 years of PepsiCo experience

Corporate Officers

Steven S Reinemund
Chairman of the Board and
Chief Executive Officer
53, 17 years

Robert S. Morrison
Vice Chairman of the Board
59, 4 years

Indra K. Nooyi
President and Chief Financial Officer
46, 8 years

David R. Andrews
Senior Vice President, Government Affairs,
General Counsel and Secretary
60, under 1 year

Peter A. Bridgman
Senior Vice President and Controller
49, 16 years

James E. Dwyer, Jr.
Senior Vice President,
Merger Integration
43, 7 years

Ronald E. Harrison
Senior Vice President,
Global Diversity and
Community Affairs
66, 37 years

Tod J. MacKenzie
Senior Vice President,
Corporate Communications
44, 14 years

Matthew M. McKenna
Senior Vice President, Finance
51, 8 years

Margaret D. Moore
Senior Vice President,
Human Resources
54, 28 years

Lionel L. Nowell, III
Senior Vice President and Treasurer
47, 2 years

Principal Divisions and Officers

Frito-Lay North America

7701 Legacy Drive
Plano, TX 75024
(972) 334-7000

Abelardo E. Bru
President and Chief Executive Officer
53, 25 years

Frito-Lay International

Av. De las Palmas No. 735
Col. Lomas de Chapultepec
Mexico 11000, D.F.

Rogelio M. Rebolledo
President and Chief Executive Officer
57, 25 years

Frito-Lay Europe/Africa/Middle East

50, rue du Rhone
1204 Geneva
Switzerland

Michael D. White
President and Chief Executive Officer
50, 12 years

Pepsi-Cola North America

700 Anderson Hill Road
Purchase, NY 10577
(914) 253-2000

Gary M. Rodkin
President and Chief Executive Officer
49, 6 years

PepsiCo Beverages International

700 Anderson Hill Road
Purchase, NY 10577
(914) 253-2000

Peter M. Thompson
President and Chief Executive Officer
55, 11 years

Gatorade/Tropicana North America
Quaker Foods North America

321 North Clark Street
Chicago, IL 60610
(312) 222-7111

Robert S. Morrison
Chairman, President and
Chief Executive Officer
The Quaker Oats Company
59, 4 years

Tropicana Products, Inc.

1001 13th Avenue East
Bradenton, FL 34208
(941) 747-4461

Brock H. Leach
President and Chief Executive Officer
43, 19 years

Gatorade/US Beverages

321 North Clark Street
Chicago, IL 60610
(312) 222-7111

Charles I. Maniscalco
President
48, 21 years

PepsiCo has adopted a new logo to reflect a "new" company with a world of opportunity.

PEPSICO

PEPSI FritoLay Tropicana QUAKER Gatorade

PepsiCo Board of Directors

Listings include age and year elected PepsiCo director.

Left to right:
Roger A. Enrico,
John F. Akers,
Cynthia M. Trudell,
Arthur C. Martinez

Left to right: Steven S Reinemund, Sharon Percy Rockefeller, Solomon D. Trujillo

Left to right: Franklin D. Raines, Ray L. Hunt, Indra K. Nooyi, Robert E. Allen

Daniel Vasella

Left to right: Franklin A. Thomas, John J. Murphy, Peter Foy, Robert S. Morrison

John F. Akers
Former Chairman of the Board and Chief Executive Officer
International Business Machines Corporation
67. Elected 1991.

Robert E. Allen
Former Chairman of the Board and Chief Executive Officer
AT&T Corp.
67. Elected 1990.

Roger A. Enrico
Former Chairman of the Board and Chief Executive Officer
PepsiCo
57. Elected 1987.

Peter Foy
Chairman
Whitehead Mann Group
61. Elected 1997.

Ray L. Hunt
Chairman and Chief Executive Officer
Hunt Oil Company and
Chairman, Chief Executive Officer and President, Hunt Consolidated, Inc.
58. Elected 1996.

Arthur C. Martinez
Former Chairman of the Board, President and Chief Executive Officer
Sears, Roebuck and Co.
62. Elected 1999.

Robert S. Morrison
Vice Chairman of the Board, PepsiCo and Chairman, President and Chief Executive Officer
The Quaker Oats Company
59. Elected 2001.

John J. Murphy
Former Chairman of the Board and Chief Executive Officer
Dresser Industries, Inc.
70. Elected 1984.

Indra K. Nooyi
President and Chief Financial Officer
PepsiCo
46. Elected 2001.

Franklin D. Raines
Chairman of the Board and Chief Executive Officer
Fannie Mae
53. Elected 1999.

Steven S Reinemund
Chairman of the Board and Chief Executive Officer
PepsiCo
53. Elected 1996.

Sharon Percy Rockefeller
President and Chief Executive Officer
WETA Public Stations, Washington, D.C.
57. Elected 1986.

Franklin A. Thomas
Consultant
TFF Study Group
67. Elected 1994.

Cynthia M. Trudell
President
Sea Ray Group
48. Elected 2000.

Solomon D. Trujillo
Chairman, Chief Executive Officer and President
Graviton, Inc.
50. Elected 2000.

Daniel Vasella
Chairman of the Board and Chief Executive Officer
Novartis AG
48. Elected 2002.

Management's Discussion and Analysis of Results of Operations and Financial Condition

On August 2, 2001, we completed a merger transaction, which resulted in The Quaker Oats Company (Quaker) becoming a wholly-owned subsidiary of PepsiCo. As a result, we restated all prior periods presented to reflect the combined results of operations, financial position and cash flows of both companies as if they had always been merged. For further detail see "Merger of PepsiCo and The Quaker Oats Company."

Tabular dollars are in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless noted, and are based on unrounded amounts. Percentage changes are based on unrounded amounts.

Management's Discussion and Analysis is presented in four sections. The first section discusses critical accounting policies, transactions with related and other parties, items affecting comparability, new accounting standards and market and other risk factors. The second section analyzes the results of operations, first on a consolidated basis and then for each of our business segments. The final two sections address consolidated cash flows and liquidity and capital resources.

Cautionary Statements

From time to time, in written reports and in oral statements, we discuss expectations regarding our future performance including synergies from the merger, the impact of the euro conversion and the impact of global macroeconomic issues. These "forward-looking statements" are based on currently available competitive, financial and economic data and our operating plans. They are inherently uncertain, and investors must recognize that events could turn out to be significantly different from our expectations.

Introduction to Our Business

Critical Accounting Policies

An understanding of our accounting policies is necessary for a complete analysis of our results, financial position, liquidity and trends. We focus your attention on the following:

Principles of consolidation – The financial statements include the consolidated accounts of PepsiCo, Inc. and its controlled affiliates. Investments in unconsolidated affiliates over which we exercise significant influence, but not control, are accounted for by the equity method. Our definition of control for majority owned affiliates considers the exercisability of the minority interest rights, and consolidation would be precluded to the extent that the minority interest holds substantive participating rights. Our share of the net income or loss of unconsolidated affiliates accounted for by the equity method is included in our consolidated net income. As a result of changes in the operations of our European snack joint venture, we have determined that, effective in 2002, consolidation is required.

Revenue recognition – We recognize revenue when products are delivered to customers consistent with sales terms. Sales terms generally do not allow a right of return.

Derivative instruments and hedging – We manage risks associated with commodity prices, foreign exchange rates, interest rates and our stock price and may use derivative instruments to hedge these risks. As a matter of policy, we do not use derivative instruments unless there is an underlying exposure and, therefore, we do not use derivative instruments for trading or speculative purposes. The evaluation of hedge effectiveness is subject to assumptions based on the terms and timing of the underlying exposures. All derivative instruments are recognized in our Consolidated Balance Sheet at fair value. The fair value of our derivative instruments is generally based on quoted market prices.

Asset impairment – All long-lived assets, including goodwill, investments in unconsolidated affiliates and other identifiable intangibles, are evaluated for impairment on the basis of undiscounted cash flows whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impaired asset is written down to its estimated fair market value based on the best information available. Estimated fair market value is generally measured by discounting estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows. Assumptions used in these cash flows are consistent with internal forecasts.

Income taxes – Our effective tax rate and the tax bases of our assets and liabilities reflect our best estimate of the ultimate outcome of tax audits. Valuation allowances are established where expected future taxable income does not support the realization of the deferred tax assets.

Commitments and contingencies – We are subject to various claims and contingencies related to lawsuits, taxes and environmental matters, as well as commitments under contractual and other commercial obligations. We recognize liabilities for contingencies and commitments when a loss is probable and estimable. Our contractual and other commercial obligations primarily relate to the procurement of goods and services in the normal course of business and to guarantees related to our equity investees.

Refer to Note 1 to the consolidated financial statements for additional information on our accounting policies.

Transactions with Related and Other Parties

Significant related parties include our bottling franchisees in which we own an equity interest. We have entered into agreements with these bottlers and expect these arrangements to continue. These agreements cover the prices and terms for the sale of concentrate and full goods bearing our trademarks, as well as the manufacturing and distribution of our fountain products. In addition, we provide various forms of marketing support to or on behalf of our bottlers covering a variety of initiatives including marketplace support, marketing programs, capital equipment and shared media expense. The level of this support is negotiated annually and can be increased or decreased at our discretion. We provide this support because we share a common business objective with our bottlers of increasing the availability and consumption of Pepsi-Cola beverages and the level of support has a direct impact on these objectives. See Liquidity and Capital Resources for related party commitments and guarantees and Note 10 to our consolidated financial statements for additional information on related parties.

Certain members of our Board of Directors also serve on the boards of certain vendors and customers. Our transactions with these vendors and customers are in the normal course of business and consistent with terms negotiated with other vendors and customers. Those Board members do not participate in vendor selection and negotiations nor in customer negotiations. In addition, certain officers serve on the boards of our anchor bottlers and other equity investees and may receive compensation from such entities consistent with that of other members serving on those boards.

Items Affecting Comparability

Fifty-third Week in 2000

Comparisons of 2000 to 2001 and 1999 are affected by an additional week of results in the 2000 reporting year. Because our fiscal year ends on the last Saturday in December, a fifty-third week is added every five or six years. The fifty-third week increased 2000 net sales by an estimated $294 million, operating profit by an estimated $62 million and net income by an estimated $44 million or $0.02 per share.

Merger of PepsiCo and The Quaker Oats Company

Under the Quaker merger agreement dated December 2, 2000, Quaker shareholders received 2.3 shares of PepsiCo common stock in exchange for each share of Quaker common stock, including a cash payment for fractional shares. We issued approximately 306 million shares of our common stock in exchange for all the outstanding common stock of Quaker.

In connection with the merger transaction, we sold the global rights in our All Sport beverage brand to The Monarch Company, Inc. of Atlanta. As part of the terms of the sale, we agreed that, for 10 years after the Quaker transaction closing date, we would not distribute Gatorade sports drink through our bottling system in the United States and would not include Gatorade with Pepsi-Cola products in certain marketing or promotional arrangements covering specific distribution channels.

The merger was accounted for as a tax-free transaction and as a pooling-of-interests. As a result, all prior period consolidated financial statements presented have been restated to include the results of operations, financial position and cash flows of both companies as if they had always been combined. Certain reclassifications were made to conform the presentation of the financial statements, and the fiscal calendar and certain interim reporting policies were also conformed. There were no material transactions between pre-merger PepsiCo and Quaker.

The results of operations of the separate companies and the combined company for the most recent interim period prior to the merger and for the years presented in the consolidated financial statements are as follows:

	24 Weeks Ended 6/16/01	2000	1999
Reported Net Sales:			
PepsiCo	$ 9,820	$ 20,438	$20,367
Quaker	2,741	5,041	4,726
Adjustments (a)	(518)	–	–
Combined	$12,043	$25,479	$25,093
Reported Net Income:			
PepsiCo	$ 1,150	$ 2,183	$ 2,050
Quaker	279	360	455
Adjustments (a)	(61)	–	–
Combined	$ 1,368	$ 2,543	$ 2,505

(a) Adjustments reflect the impact of changing Quaker's fiscal calendar to conform to PepsiCo's and conforming the accounting policies of the two companies applicable to interim reporting. These changes have no impact on full year net sales or net income.

During 2001, we recognized costs of $356 million associated with our merger with Quaker. The components of these merger-related costs were as follows:

Transaction costs	$ 117
Integration and restructuring costs	239
Total merger-related costs	$ 356
After-tax	$ 322
Per share	$ 0.18

Transaction costs were incurred to complete the merger and consist primarily of fees and expenses for investment bankers, attorneys and accountants, SEC filing fees, stock exchange listing fees and financial printing and other related charges.

Integration costs represent incremental one-time merger-related costs. Such costs include consulting fees and expenses, expenses for accelerated vesting under change-in-control provisions, information system integration costs and employee-related costs.

The restructuring charges primarily reflect termination costs for approximately 580 corporate, sales, distribution, manufacturing, research and marketing employees. Employee termination costs include retirement benefit costs, severance costs and expenses associated with change-in-control provisions of pre-merger employment contracts. As of December 29, 2001, approximately 380 of the terminations have occurred. The terminations are expected to be completed during 2002.

Additional merger-related actions are expected to bring the total integration costs and restructuring charges to between $450 million and $550 million. Ongoing merger-related cost savings and revenue enhancement opportunities are expected to reach $400 million a year by 2005. We expect to achieve up to $175 million of the synergies by the end of 2002.

Other Impairment and Restructuring Charges

	2001	2000	1999
Asset impairment charges			
Held and used in the business			
Property, plant and equipment	$ 19	$ 125	$ 8
Held for disposal/abandonment			
Property, plant and equipment	–	–	34
Total asset impairment	19	125	42
Restructuring charges			
Employee-related costs	–	41	20
Other charges	12	18	11
Total restructuring	12	59	31
Total	$ 31	$ 184	$ 73
After-tax	$ 19	$ 111	$ 45
Per share	$0.01	$0.06	$0.02

2001 and 2000

The 2001 and 2000 other impairment and restructuring charges relate to a three-year supply chain reconfiguration project announced in 1999 to upgrade and optimize Quaker's manufacturing and distribution capabilities across all of its North American businesses.

The asset impairment charges primarily reflect the reduction in the carrying value of the land, buildings and production machinery and equipment to their estimated fair market value based on analyses of the liquidation values of similar assets.

The restructuring charges primarily included severance and termination benefits for approximately 1,000 employees and other shutdown costs. No future charges are expected on this project.

1999

The 1999 other impairment and restructuring charges of $73 million were comprised of the following:

- A charge of $65 million, for asset impairment of $37 million and restructuring charges of $28 million, related to the closure of three plants and impairment of equipment at Frito-Lay North America. The asset impairment charges primarily reflected the reduction in the carrying value of the land and buildings to their estimated fair market value based on selling prices for comparable real estate, less costs to sell, and the write off of the net book value of equipment which could not be redeployed. The plant closures were completed during 1999. The majority of these assets were either disposed of or abandoned in 1999. The restructuring charges of $28 million primarily included severance costs and plant closing costs.
- A charge of $8 million, for asset impairment of $5 million and restructuring charges of $3 million, related to the previously discussed Quaker supply chain reconfiguration project. The charge included costs to consolidate several cereal manufacturing lines and employee-related costs.

The employee-related costs for 1999 of $20 million primarily included severance and early retirement benefits for approximately 930 employees. Substantially all of the terminations occurred during 1999.

Total restructuring reserves of $100 million, including merger-related reserves, at December 29, 2001, are included in accounts payable and other current liabilities in the Consolidated Balance Sheet.

Bottling Transactions

During 1999, we completed a series of transactions creating our anchor bottlers. In April 1999, certain wholly-owned bottling businesses, referred to as The Pepsi Bottling Group (PBG), completed an initial public offering with PepsiCo retaining a direct noncontrolling ownership interest of 35.5%. In May, we combined certain other bottling operations with Whitman Corporation retaining a noncontrolling ownership interest of approximately 38%. In July, we combined certain other bottling operations with PepCom Industries, Inc. retaining a noncontrolling interest of 35% in the combined entity renamed Pepsi Bottling Ventures, LLC. In October, we formed a business venture with Pohlad Companies, a Pepsi-Cola franchisee, retaining a noncontrolling ownership interest of approximately 24% in the venture's principal operating subsidiary, PepsiAmericas, Inc.

Our financial statements include the results of our bottling operations on a consolidated basis through the transaction dates above, and our proportionate share of income under the equity method subsequent to those dates.

In December 2000, Whitman merged with PepsiAmericas. We now own approximately 37% of the combined company, which has since changed its name to PepsiAmericas. As part of the merger, we participate in an earn-out option whereby we may receive additional shares when certain performance targets are met.

Our three anchor bottlers distribute approximately three-fourths of our beverage products in North America.

Tax Item

In 1999, Quaker adjusted its tax accruals and tax assets to reflect developments and information received during the year. The net effect of these adjustments reduced the income tax provision by $59 million or $0.03 per share.

New Accounting Standards

On December 31, 2000, we adopted Statement of Financial Accounting Standard No. (SFAS) 133, *Accounting for Derivative Instruments and Hedging Activities.* SFAS 133 establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that we recognize all derivative instruments as either assets or liabilities in the Consolidated Balance Sheet and measure those instruments at fair value. The adoption of SFAS 133 on December 31, 2000 increased assets by approximately $12 million and liabilities by approximately $10 million with approximately $3 million recognized in accumulated other comprehensive income and a loss of less than $1 million recognized in the Consolidated Statement of Income.

During 2000 and 2001, the Financial Accounting Standards Board's (FASB) Emerging Issues Task Force (EITF) addressed various issues related to the income statement classification of certain promotional payments, including consideration from a vendor to a reseller or another party that purchases the vendor's products. EITF 01-9, *Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products,* was issued in November 2001 and codified earlier pronouncements. Primarily effective for 2002, adoption of EITF 01-9 will reduce our net sales by $3.4 billion in 2001, $3.1 billion in 2000 and $2.9 billion in 1999, with selling, general and administrative expenses reduced by the same amounts.

In July 2001, the FASB issued SFAS 141, *Business Combinations.* SFAS 141 eliminates the pooling-of-interests method of accounting for business combinations and modifies the application of the purchase accounting method. The elimination of the pooling-of-interests method is effective for transactions initiated after June 30, 2001. The remaining provisions of SFAS 141 are effective for transactions accounted for using the purchase method that are completed after June 30, 2001. Since our merger with Quaker (see Note 2 to the consolidated financial statements) was initiated in December 2000 and our acquisition of South Beach Beverage Company, LLC (see Note 4 to the consolidated financial statements) was completed in January 2001, adoption of this statement does not have an impact on our consolidated financial statements.

In July 2001, the FASB also issued SFAS 142, *Goodwill and Intangibles.* SFAS 142 eliminates the current requirement to amortize goodwill and indefinite-lived intangible assets, addresses the amortization of intangible assets with finite lives and addresses impairment testing and recognition for goodwill and intangible assets. SFAS 142 applies to existing goodwill and intangible assets, as well as to transactions completed after the statement's effective date. SFAS 142 is effective for 2002. Adoption of SFAS 142 will increase income before taxes by approximately $87 million in 2002 reflecting the cessation of goodwill amortization and changes in the lives of other intangibles. The required transition impairment evaluations are not expected to result in impairment charges.

In June 2001, the FASB issued SFAS 143, *Accounting for Asset Retirement Obligations.* SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It requires that we recognize the fair value of a liability for an asset retirement obligation in the period in which it is

incurred if a reasonable estimate of fair value can be made. We are currently assessing SFAS 143 and the impact that adoption, in 2003, will have on our consolidated financial statements.

In August 2001, the FASB issued SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS 144 establishes a single model for the impairment of long-lived assets and broadens the presentation of discontinued operations to include more disposal transactions. SFAS 144 is effective for 2002. Adoption will not have a material impact on our consolidated financial statements.

Market and Other Risk Factors

Market Risks

The principal market risks (i.e., the risk of loss arising from adverse changes in market rates and prices) to which we are exposed are:

- commodity prices, affecting the cost of our raw materials and fuel;
- foreign exchange risks;
- interest rates on our debt and short-term investment portfolios; and
- our stock price.

In the normal course of business, we manage these risks through a variety of strategies, including the use of hedging transactions, executed in accordance with our policies.

Our hedging transactions include, but are not limited to, the use of various derivative instruments. As a matter of policy, we do not use derivative instruments unless there is an underlying exposure and, therefore, we do not use derivative instruments for trading or speculative purposes. Any change in the value of our derivative instruments would be substantially offset by an opposite change in the value of the underlying hedged items.

Commodity Prices

We are subject to market risk with respect to the cost of commodities because our ability to recover increased costs through higher pricing may be limited by the competitive environment in which we operate. We manage this risk primarily through the use of fixed-price purchase orders, pricing agreements, geographic diversity and derivative instruments. Derivative instruments, including futures, options and swaps, are used to hedge fluctuations in prices of a portion of anticipated commodity purchases, primarily corn, oats, natural gas, heating oil, vegetable oil and packaging materials. Our use of derivative instruments is not significant to our commodity purchases.

Our commodity derivative positions were $252 million at December 29, 2001 and $52 million at December 30, 2000. Our commodity derivative positions resulted in a net unrealized loss of $16 million at December 29, 2001 and a net unrealized gain of $3 million at December 30, 2000. We estimate that a 10% decline in commodity prices would have increased the loss by $18 million in 2001 and reduced the gain by $6 million resulting in a loss in 2000.

Foreign Exchange

International operations constitute about one-fifth of our annual business segment operating profit. Operating in international markets involves exposure to movements in foreign exchange rates, primarily the Mexican peso, British pound, Canadian dollar, euro and Brazilian real, which principally impacts the translation of our international operating profit into U.S. dollars. On occasion, we may enter into derivative instruments, as necessary, to reduce the effect of foreign exchange rate changes. We manage the use of foreign exchange derivatives centrally.

Our foreign currency derivative positions had an aggregate notional value of $355 million, with $223 million relating to contracts to exchange British pounds for U.S. dollars, at December 29, 2001 and $344 million, with $336 million relating to contracts to exchange British pounds to U.S. dollars, at December 30, 2000. These forward contracts had a net gain of $4 million at December 29, 2001 and losses of $9 million at December 30, 2000. We estimate that an unfavorable 10% change in the exchange rates would have decreased the 2001 gain by $35 million resulting in a loss and increased the 2000 losses by $35 million.

Interest Rates

We centrally manage our debt and investment portfolios considering investment opportunities and risks, tax consequences and overall financing strategies. We use interest rate and currency swaps to effectively change the interest rate and currency of specific debt issuances, with the objective of reducing our overall borrowing costs. These swaps are entered into concurrently with the issuance of the debt that they are intended to modify. The notional amount, interest payment and maturity date of the swaps match the principal, interest payment and maturity date of the related debt. Our credit risk related to interest rate and currency swaps is considered low because such swaps are entered into only with strong creditworthy counterparties, are generally settled on a net basis and are of relatively short duration.

Assuming year-end 2001 and 2000 variable rate debt and investment levels, a one-point increase in interest rates would have increased net interest expense by $3 million in 2001 and $7 million in 2000. The change in this impact from 2000 resulted from decreased variable debt levels and increased investment levels at year-end 2001. This sensitivity analysis includes the impact of existing interest rate and currency swaps.

Stock Price

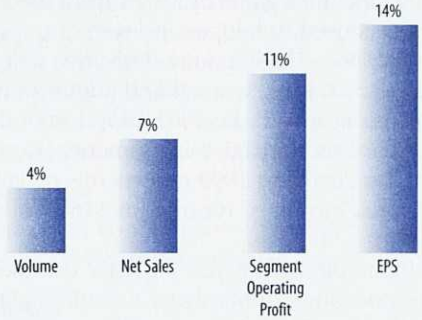
The portion of our deferred compensation liability which is based on our stock price is subject to market risk. Prepaid forward contracts with financial institutions with an aggregate notional amount of $52 million at year-end 2001 were used to hedge this risk and are accounted for as natural hedges. The change in fair value of these equity derivative contracts resulted in $1 million of expense in 2001, $19 million of income in 2000 and $6 million of expense in 1999. We estimate that a 10% unfavorable change in the year-end stock price would have increased the 2001 loss by $6 million and reduced the 2000 gain by $7 million.

Euro Conversion

Our operating subsidiaries affected by the euro conversion successfully addressed the issues raised by the euro currency conversion including, among others, adapting computer and financial systems, business processes and equipment, such as vending machines, to accommodate euro-denominated transactions and took actions to reduce the impact of one common currency on cross-border pricing. We have experienced no business interruption as a result of the issuance and circulation of euro-denominated bills and coins and the withdrawal of legacy currencies. The system and equipment conversion costs were not material. Due to numerous uncertainties, we cannot reasonably estimate the long-term effects one common currency may have on pricing and the resulting impact, if any, on financial condition or results of operations.

Results of Operations

2001 Comparable Growth



General

In the discussions below, the year-over-year dollar change in unit sales is referred to as *volume*. Price changes over the prior year and the impact of product, package and country sales mix changes are referred to as *effective net pricing*.

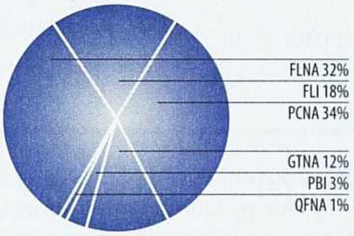
Comparable results in all periods presented below exclude:

- the costs associated with our merger with Quaker,
- the impact of the fifty-third week in 2000,
- other impairment and restructuring charges and various Quaker one-time items and
- the gain on the bottling transactions in 1999, and also
- reflect the impact of certain reclassifications and tax items.

In addition, comparable net sales and operating profit present the deconsolidation of our bottling operations as if it had occurred at the beginning of 1998.

Consolidated Review

Comparable Net Sales Growth Contribution



Net Sales

	2001	2000	1999	% Change B/(W) 2001	% Change B/(W) 2000
Reported	**$26,935**	$25,479	$25,093	**6**	2
Comparable	**$26,935**	$25,185	$23,385	**7**	8

In 2001, comparable net sales increased 7%. This increase is primarily due to volume gains and higher effective net pricing of worldwide snacks and worldwide beverages, as well as the acquisition of South Beach Beverage Company, LLC (SoBe). These gains were partially offset by a net unfavorable foreign currency impact. The SoBe acquisition enhanced comparable net sales growth by nearly 1 percentage point and the unfavorable foreign currency impact, primarily in Brazil and Europe, reduced comparable net sales growth by more than 1 percentage point.

In 2000, comparable net sales increased 8%. This increase is primarily due to volume gains and higher effective net pricing of worldwide snacks, Pepsi-Cola North America and PepsiCo Beverages International. These increases were partially offset by a net unfavorable foreign currency impact, primarily in Europe, which reduced comparable net sales growth by 1 percentage point. The fifty-third week enhanced reported net sales growth by 1 percentage point.

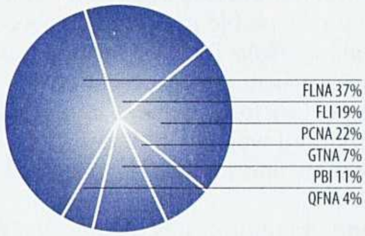
Volume

Servings are based on U.S. Food and Drug Administration guidelines for single-serving sizes of our products.

Total servings increased 4% in 2001 compared to 2000 primarily due to contributions from our international divisions and Pepsi-Cola North America.

Total servings increased 5% in 2000 compared to 1999 driven by our international divisions, as well as contributions from Frito-Lay North America and Gatorade/Tropicana North America.

Comparable Segment Operating Profit Growth Contribution



Operating Profit and Margin

	2001	2000	1999	Change B/(W) 2001	Change B/(W) 2000
Reported					
Operating profit	**$4,021**	$3,818	$3,483	**5%**	10%
Operating profit margin	**14.9%**	15.0%	13.9%	**(0.1)**	1.1
Comparable					
Operating profit	**$4,406**	$3,957	$3,487	**11%**	13%
Operating profit margin	**16.4%**	15.7%	14.9%	**0.7**	0.8

In 2001, comparable operating profit margin increased 0.7 percentage points primarily reflecting the favorable margin impact of higher effective net pricing and increased volume. These improvements were partially offset by the margin impact of increased advertising and marketing and general and administrative expenses.

In 2000, comparable operating profit margin increased 0.8 percentage points primarily reflecting the favorable margin impact of higher effective net pricing and increased volume. These improvements were partially offset by the margin impact of increases in selling and distribution expenses, primarily in Frito-Lay International, advertising and marketing and general and administrative expenses.

Bottling Equity Income and Transaction Gains and Losses

Bottling equity income and transaction gains and losses includes our share of the net earnings or losses from our bottling equity investments. From time to time, we may increase or dispose of particular bottling investments. Any gains or losses from

disposals, as well as other transactions related to our bottling investments, are also reflected on a pre-tax basis in equity income and transaction gains and losses.

In 2001, comparable net bottling equity income and transaction gains and losses increased 28% to $160 million, primarily reflecting the strong performance of PBG. Results for 2001 also include a gain of $59 million from the sale of approximately 2 million shares of PBG stock and a net credit of $23 million related to the resolution of issues for which a prior year accrual was established in connection with the creation of our anchor bottler system. These increases were offset by impairment charges of $62 million related to certain international bottling investments, primarily our equity investment in Turkey, reflecting a major currency devaluation and adverse macroeconomic conditions. Additionally, $27 million for our share of a charge recorded by PepsiAmericas for environmental liabilities relating to discontinued operations is included in our share of the net earnings from our bottling equity investments in 2001.

In 2000, comparable net bottling equity income and transaction gains and losses increased 51% to $125 million. Our share of net earnings from our bottling equity investments includes $18 million from the favorable impact of an accounting change by PBG. In addition, results for 2000 include our share of charges related to restructuring actions in certain other bottling affiliates and the net loss from changes in our equity ownership interests. The fifty-third week in 2000 enhanced reported net bottling equity income and transaction gains and losses by $5 million.

In 1999, reported bottling equity income and transaction gains and losses includes a gain on bottling transactions of $1.0 billion ($270 million after-tax or $0.15 per share) relating to the second quarter PBG and Whitman bottling transactions. The PBG transaction resulted in a pre-tax gain of $1.0 billion ($476 million after-tax or $0.26 per share). The majority of the taxes are expected to be deferred indefinitely. The Whitman transaction resulted in an after-tax loss to us of $206 million or $0.11 per share. The 1999 PepCom transaction was accounted for as a nonmonetary exchange for book purposes. However, a portion of the transaction was taxable which resulted in income tax expense of $25 million or $0.01 per share. The 1999 Pohlad transaction was structured as a fair value exchange with no resulting gain or loss. Further, 1999 bottling equity income and transaction gains and losses reflects $83 million for the equity income of our previously consolidated bottling operations from the applicable transaction closing dates and the equity income or loss of other unconsolidated bottling affiliates for the second, third and fourth quarters.

Interest Expense, net

				% Change B/(W)	
	2001	2000	1999	**2001**	2000
Reported					
Interest expense	**$(219)**	$(272)	$(421)	**20**	35
Interest income	**67**	85	130	**(22)**	(34)
Interest expense, net	**$(152)**	$(187)	$(291)	**19**	36
Comparable					
Interest expense	**$(219)**	$(268)	$(421)	**19**	36
Interest income	**67**	66	136	**–**	(51)
Interest expense, net	**$(152)**	$(202)	$(285)	**25**	29

Reported and comparable interest income in 2001 includes a loss on investments used to economically hedge a portion of our deferred compensation liability. Reported interest income in 2000 and 1999 includes gains or losses from the equity derivative contracts used to hedge a portion of our deferred compensation liability. These equity derivative gains or losses are now classified in selling, general and administrative expenses in connection with the 2001 adoption of the accounting standard on derivative instruments. Comparable interest income for 2000 and 1999 reflects this reclassification. The fifty-third week increased reported net interest expense in 2000 by $3 million.

In 2001, comparable net interest expense declined 25%. Interest expense declined primarily as a result of significantly lower average debt levels. Interest income remained nearly flat as the increase from higher average investment balances was offset by lower average interest rates and a loss on the investments hedging a portion of our deferred compensation liability.

In 2000, comparable net interest expense declined 29%. Interest expense declined reflecting significantly lower average debt levels, partially offset by higher average interest rates. Lower average debt levels reflect the third quarter 1999 repayment of borrowings used to finance the Tropicana acquisition and the absence of the financing related to PBG. Interest income declined primarily due to lower average investment balances.

Provision for Income Taxes

	2001	2000	1999
Reported			
Provision for income taxes	**$1,367**	$1,218	$1,770
Effective tax rate	**33.9%**	32.4%	41.4%
Comparable			
Provision for income taxes	**$1,412**	$1,270	$1,099
Effective tax rate	**32.0%**	32.7%	32.9%

In 2001, the comparable effective tax rate decreased 0.7 percentage points primarily due to lower taxes on foreign results. The reported effective tax rate increased 1.5 percentage points primarily due to limited tax benefits associated with merger-related costs recognized during the year.

In 2000, the comparable effective tax rate remained nearly flat. The reported effective tax rate decreased 9 percentage points primarily as a result of the 1999 bottling transactions.

Net Income and Net Income Per Common Share – Assuming Dilution

				% Change B/(W)	
	2001	2000	1999	**2001**	2000
Reported					
Net income	**$2,662**	$2,543	$2,505	**5**	2
Net income per common share	**$ 1.47**	$ 1.42	$ 1.38	**4**	3
Comparable					
Net income	**$3,002**	$2,610	$2,239	**15**	17
Net income per common share	**$ 1.66**	$ 1.46	$ 1.23	**14**	18

In 2001, comparable net income increased 15% and the related net income per common share increased 14%. These increases primarily reflect increased operating profit, lower net interest expense and a lower effective tax rate.

In 2000, comparable net income increased 17% and the related net income per common share increased 18% reflecting higher operating profit and lower net interest expense. The increase in net income per common share also reflects the benefit from a 1.4% reduction in average shares outstanding.

Business Segments

Additional information concerning our operating segments is presented in Note 21 to our consolidated financial statements.

Worldwide Snacks

Worldwide Snacks primarily include our salty, sweet and grain-based snack businesses. Products manufactured and sold by Frito-Lay North America include Lay's potato chips, Doritos and Tostitos tortilla chips, Cheetos cheese flavored snacks, Ruffles potato chips, Fritos corn chips, a variety of dips and salsas, Quaker Chewy granola bars, Rold Gold pretzels, Sunchips multigrain snacks and Funyuns onion flavored rings. Frito-Lay International includes Sabritas snack foods and Alegro and Gamesa sweet snacks in Mexico, Walkers snack foods in the United Kingdom and Smith's snack foods in Australia. Frito-Lay International also includes non-snack products, such as cereals that are not material.

Volume growth is reported on a system-wide basis, which includes joint ventures.

Frito-Lay North America

	2001	2000	1999	% Change B/(W) 2001	% Change B/(W) 2000
Net sales					
Reported	**$9,374**	$8,971	$8,232	**4**	9
Comparable	**$9,374**	$8,807	$8,232	**6**	7
Operating profit					
Reported	**$2,056**	$1,915	$1,679	**7**	14
Comparable	**$2,056**	$1,875	$1,679	**10**	12

2001 vs. 2000

Pound volume advanced 3% excluding the impact of the fifty-third week in 2000. This growth was led by single-digit growth in Lay's potato chips, Cheetos cheese flavored snacks, Doritos tortilla chips, Fritos corn chips and the introduction of our new Lay's Bistro Gourmet potato chips. These gains were partially offset by a double-digit decline in Ruffles potato chips. Pound volume growth including the fifty-third week in 2000 was 1%.

Comparable net sales grew 6% due to higher effective net pricing and the increased volume. Lay's Bistro Gourmet potato chips contributed 1 percentage point to this growth.

Comparable operating profit increased 10% primarily reflecting the higher effective net pricing and increased volume, partially offset by increased advertising and marketing expenses. Advertising and marketing expenses grew at a faster rate than sales primarily due to increased promotional allowances.

2000 vs. 1999

Pound volume advanced 5% excluding the impact of the fifty-third week. This growth was primarily driven by most of our core brands, excluding the low-fat and no-fat versions, and by our new Snack Kit products. The growth in core brands was led by solid single-digit growth in Lay's potato chips, Cheetos cheese flavored snacks and Ruffles potato chips, as well as double-digit growth in Tostitos tortilla chips. These gains were partially offset by continued declines in WOW! products. Pound volume growth including the fifty-third week was 7%.

Comparable net sales increased 7% primarily due to the volume gains and higher effective net pricing. Sales of our new Snack Kit and Snack Mix products and Oberto natural beef jerky snacks accounted for almost 30% of this growth. The fifty-third week enhanced reported net sales growth by 2 percentage points.

Comparable operating profit increased 12% primarily reflecting the higher volume, the higher effective net pricing and reduced vegetable oil costs, partially offset by higher energy and fuel costs. Advertising and marketing expenses grew at a slightly slower rate than sales. The margin impact of these favorable factors contributed to the comparable operating profit margin improvement of 0.9 percentage points. The fifty-third week enhanced reported operating profit growth by 2 percentage points.

Frito-Lay International

	2001	2000	1999	% Change B/(W) 2001	% Change B/(W) 2000
Net sales					
Reported	**$5,130**	$4,875	$4,274	**5**	14
Comparable	**$5,130**	$4,814	$4,274	**7**	13
Operating profit					
Reported	**$ 627**	$ 546	$ 455	**15**	20
Comparable	**$ 627**	$ 536	$ 455	**17**	17

2001 vs. 2000

Kilo volume increased 6%, excluding the impact of the fifty-third week in 2000. This growth was primarily driven by a 9% increase in salty snack kilos and a 5% increase in sweet snack kilos. The salty snack growth was led by double-digit growth at our European joint venture, in Brazil and in Poland and single-digit growth at Walkers. Acquisitions contributed 2 percentage points of salty growth. The sweet snack increase was primarily attributable to growth at Gamesa. Kilo volume growth including the fifty-third week in 2000 was 5%.

Comparable net sales increased 7%, primarily driven by the volume growth in Walkers, Gamesa and Poland and effective net pricing at Sabritas and Gamesa. Acquisitions contributed 1 percentage point to sales growth. Weaker foreign currencies in Brazil and the United Kingdom decreased net sales growth by 4 percentage points.

Operating profit increased 17%, led by solid results from Sabritas, Walkers, Poland and Gamesa, partially offset by a decrease in Argentina as a result of macroeconomic conditions. The weaker foreign currencies, primarily in Brazil and the United Kingdom, decreased operating profit growth by 2 percentage points.

2000 vs. 1999

Kilo volume increased 10%, excluding the impact of the fifty-third week. This growth was primarily driven by a 13% increase in salty snack kilos and a 9% increase in other non-snack food kilos. The salty snack growth was led by double-digit increases at Sabritas, our European and Latin American joint ventures and Walkers. The other non-snack food growth was led by our business in Brazil. Acquisitions did not significantly impact the kilo growth. Kilo volume growth including the fifty-third week was 11%.

Comparable net sales increased 13% primarily driven by the volume growth at Sabritas, Walkers, and in Turkey, largely due to promotional programs, and effective net pricing at Gamesa and Sabritas. The net impact from acquisitions/divestitures contributed 2 percentage points to sales growth. Weaker foreign currencies, primarily in the United Kingdom and Australia, decreased net sales growth by 3 percentage points.

Comparable operating profit grew 17% reflecting strong operating performances at Sabritas, Gamesa and in Turkey. The net impact from acquisitions/divestitures decreased operating profit growth by 3 percentage points. Weaker foreign currencies, primarily in the United Kingdom, decreased operating profit growth by 2 percentage points.

Worldwide Beverages

Our worldwide beverage operations include Pepsi-Cola North America, Gatorade/Tropicana North America and PepsiCo Beverages International.

Pepsi-Cola North America markets, promotes and manufactures concentrates for Pepsi, Mountain Dew, MUG, Sierra Mist, Slice and other brands for sale to franchised bottlers. It also sells syrups for these brands to national fountain accounts. Pepsi-Cola North America receives a royalty fee for licensing the processing, distribution and sale of Aquafina bottled water; manufactures, markets and distributes ready-to-drink tea and coffee products through joint ventures with Lipton and Starbucks; and manufactures and sells SoBe and Dole beverages for distribution and sale through our franchise bottling system.

Gatorade/Tropicana North America produces, markets, sells and distributes Gatorade sports drinks, Tropicana Pure Premium, Tropicana Season's Best, Tropicana Twister and Dole juices.

PepsiCo Beverages International (PBI) manufactures concentrates of Pepsi, 7UP, Mirinda, KAS, Mountain Dew and other brands internationally for sale to franchised and company-owned bottlers. PBI also produces, markets, sells and distributes Gatorade sports drinks as well as Tropicana and other juices. In addition, PBI operates bottling plants and distribution facilities in certain international markets for the production, distribution and sale of company-owned and licensed brands.

Pepsi-Cola North America

				% Change B/(W)	
	2001	2000	1999	**2001**	2000
Net sales					
Reported	**$3,842**	$3,289	$2,605	**17**	26
Comparable	**$3,842**	$3,253	$3,005	**18**	8
Operating profit					
Reported	**$ 927**	$ 833	$ 751	**11**	11
Comparable	**$ 927**	$ 820	$ 751	**13**	9

2001 vs. 2000

Concentrate shipments and equivalents increased 4%, excluding the impact of the fifty-third week in 2000. This increase was primarily driven by high single-digit growth in Mountain Dew reflecting the introduction of Code Red, strong growth in Sierra Mist and Aquafina, the acquisition of SoBe and the launch of Dole. These gains were partially offset by a low single-digit decline in trademark Pepsi, which was mitigated, in part, by the successful launch of Pepsi Twist, and a double-digit decline in Slice reflecting the strong growth of Sierra Mist. Bottler case sales volume increased 4%. The carbonated soft drink portfolio and the acquisition of SoBe each contributed 1 percentage point to both concentrate shipments and equivalents and bottler case sales growth.

Comparable net sales increased 18% primarily due to the increased volume and higher effective net pricing. The acquisition of SoBe and our new products Dole, Mountain Dew Code Red, Sierra Mist and Pepsi Twist, accounted for the majority of the volume growth. These gains were partially offset by increased customer support. SoBe and Dole are sold as finished product to our bottling system. Accordingly, net sales growth was accelerated due to their significantly higher price per unit. The SoBe acquisition contributed 7 percentage points to net sales growth.

Comparable operating profit increased 13% primarily due to the increased volume and higher effective net pricing. These gains were partially offset by the increased advertising and marketing expenses related to bottler funding and other programs, increased general and administrative expenses and the increased customer support. General and administrative expenses grew at a significantly faster rate than sales, while advertising and marketing expenses grew at a significantly slower rate. The SoBe acquisition reduced operating profit growth by 4 percentage points.

2000 vs. 1999

Bottler case sales volume increased 1% driven by double-digit growth in Aquafina and distribution gains from Fruitworks. In addition, the introduction of Sierra Mist and low single-digit growth in Diet Pepsi contributed to the increase. These gains were partially offset by a low single-digit decline in Pepsi and double-digit declines in Pepsi One and Lemon Lime Slice. Concentrate shipments were in line with bottler case sales. On a fifty-three week basis, concentrate shipments increased 1.3%.

Comparable net sales increased 8%. Higher concentrate and fountain pricing and higher Aquafina royalties contributed 8 percentage points of growth, and the increased volume, including the launch of Sierra Mist and our new Dole juice product, contributed 2 percentage points. These increases were partially offset by increased customer support. The fifty-third week enhanced reported net sales growth by 1 percentage point.

Comparable operating profit increased 9% primarily due to the higher concentrate pricing, increased volume and the higher Aquafina royalties. These increases were partially offset by higher advertising and marketing expenses, increased customer support and increased general and administrative expenses.

Gatorade/Tropicana North America

				% Change B/(W)	
	2001	2000	1999	**2001**	2000
Net sales					
Reported	**$4,016**	$3,841	$3,452	**5**	11
Comparable	**$4,016**	$3,808	$3,452	**5**	10
Operating profit					
Reported	**$ 530**	$ 500	$ 433	**6**	16
Comparable	**$ 530**	$ 495	$ 433	**7**	15

2001 vs. 2000

Volume grew 4% excluding the impact of the fifty-third week in 2000. This growth was led by three new Gatorade flavors and double-digit growth in Tropicana Pure Premium nutritionals, offset by low double-digit declines in Tropicana Season's Best.

Comparable net sales increased 5% due to the volume gains and higher effective net pricing for Gatorade.

Comparable operating profit increased 7% due to the volume gains, the higher effective net pricing and lower general and administrative expenses. These increases were partially offset by higher promotional allowances and higher manufacturing costs primarily resulting from lower fruit yields, higher energy costs and lower production leverage.

2000 vs. 1999

Volume grew 10% due to the introduction of two new Gatorade flavors, multiple packs and expanded distribution. Continued double-digit growth in Tropicana Pure Premium, including strong double-digit growth in Tropicana Pure Premium nutritionals and blends, also contributed to this growth. On a fifty-three week basis, volume increased 11%.

Comparable net sales increased 10% primarily due to the volume gains. Lower effective net pricing at Tropicana was substantially offset by increased pricing of selected Gatorade products.

Comparable operating profit increased 15% primarily due to the volume gains. These gains were partially offset by increased advertising and marketing expenses, including costs to support the launch of Propel fitness water, and increased packaging and transportation costs.

PepsiCo Beverages International

				% Change B/(W)	
	2001	2000	1999	**2001**	2000
Net sales					
Reported	**$2,582**	$2,531	$2,407	**2**	5
Comparable	**$2,582**	$2,531	$2,429	**2**	4
Operating profit	**$ 221**	$ 169	$ 108	**31**	56

2001 vs. 2000

Volume increased 4.5% due to broad-based increases led by Russia, China and Brazil. These increases were partially offset by pricing related declines in Mexico and Saudi Arabia coupled with a macroeconomic decline in Turkey. Total carbonated soft drink concentrate shipments to franchisees, including those bottlers in which we own an equity interest, grew 3% while their bottler case sales grew at about the same rate.

Net sales increased 2%. This increase was primarily due to the volume gains and higher effective net pricing, partially offset by a net unfavorable foreign currency impact. The net unfavorable foreign currency impact, primarily in Europe, Brazil and Egypt, reduced net sales growth by 4 percentage points.

Operating profit increased 31% primarily reflecting the volume gains and higher effective net pricing, partially offset by a net unfavorable foreign currency impact. The net unfavorable foreign currency impact, primarily in Europe, reduced operating profit growth by 12 percentage points. Overall margin improvements contributed to operating profit growth.

2000 vs. 1999

Volume increased 6%. This reflects broad-based increases led by a doubling of volume in Russia, where volumes recovered from the effects of the 1998 ruble devaluation. Volume growth was also driven by double-digit growth in China, India and Thailand and by growth in Mexico. Total carbonated soft drink concentrate shipments to franchisees, including those bottlers in which we own an equity interest, grew 2% while their bottler case sales grew at a higher rate.

Comparable net sales increased 4% due to the volume gains and higher effective net pricing, partially offset by a broad-based net unfavorable foreign currency impact led by Europe. The net unfavorable foreign currency impact reduced net sales growth by 5 percentage points.

Operating profit increased 56% primarily reflecting the volume gains and higher effective net pricing, partially offset by a net unfavorable foreign currency impact, primarily in Europe, higher advertising and marketing and higher general and administrative expenses to support top-line growth.

Quaker Foods North America

Quaker Foods North America manufactures, markets and sells ready-to-eat cereals, hot cereals, flavored rice and pasta products, mixes and syrups, hominy grits and cornmeal in North America. Products manufactured and sold include Quaker oatmeal, Cap'n Crunch and Life ready-to-eat cereals, Rice-A-Roni products, Aunt Jemima mixes and syrups and Quaker grits.

				% Change B/(W)	
	2001	2000	1999	**2001**	2000
Net sales	**$1,991**	$1,972	$1,993	**1**	(1)
Operating profit	**$ 415**	$ 392	$ 363	**6**	8

2001 vs. 2000

Volume decreased 1% driven by declines in ready-to-eat cereals and bulk cornmeal and oats products, largely offset by growth in hot cereals. The hot cereals growth resulted primarily from new products and flavor varieties.

Net sales increased 1% primarily due to higher effective net pricing reflecting a mix shift to higher priced products, as well as price increases for cereals. This increase was offset by the lower overall volume.

Operating profit increased 6% reflecting the higher effective net pricing from growth in higher priced products and the price increases in cereals.

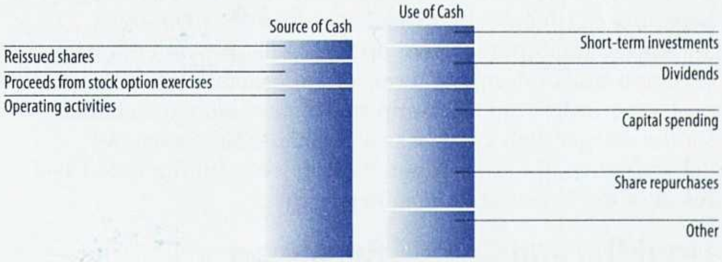
2000 vs. 1999

Volume declined 1% driven by price competition in the ready-to-eat cereal category, partially offset by gains from the introduction of new varieties of hot cereals.

Net sales declined 1% primarily due to the lower overall volume.

Operating profit increased 8% reflecting the higher-margin hot cereals volume growth, productivity gains and lower marketing spending. Advertising and marketing expenses declined at a faster rate than sales.

Consolidated Cash Flows



Operating cash flow for 2001 was $2.9 billion compared with $3.1 billion for 2000. Operating cash flow primarily reflects externally reported net cash provided by operating activities of

$4.2 billion, excluding after-tax net interest payments and the cash payments for merger-related costs and other impairment and restructuring charges, less capital spending, sales of property, plant and equipment and other net investing activity. Our 2001 operating cash flow reflects a $421 million contribution to our U.S. pension plans compared to a $70 million contribution in 2000. The 2001 payment was made following a review of our anticipated future sources and uses of cash. We do not expect to make a cash contribution to our U.S. pension plans in 2002. Additionally, in 2001, we received tax refunds of $62 million versus $145 million in 2000.

As shown in our Consolidated Statement of Cash Flows, our 2001 cash and cash equivalents decreased $355 million to $683 million reflecting cash used for investing and financing activities primarily funded from net cash provided by operations. The cash used in investing activities reflects capital spending, net purchases of short-term investments, the acquisition of SoBe and the contribution to our pension plans. The cash used in financing activities reflects share repurchases and dividend payments, partially offset by proceeds from the exercise of stock options and the net proceeds of $524 million from the issuance of shares in connection with the merger with Quaker. We issued 13.2 million shares of our repurchased common stock to qualify for pooling-of-interests accounting treatment.

Our 2000 cash and cash equivalents decreased $208 million to $1 billion reflecting cash used for financing and investing activities primarily funded from net cash provided by operations. The cash used in financing activities reflects share repurchases, dividend payments and net long-term debt payments, partially offset by proceeds from the exercise of stock options. The cash used in investing activities reflects capital spending and net purchases of short-term investments.

Common Share Repurchases

Common share repurchase activity was as follows:

	2001	2000	1999
Cost	**$1,716**	$1,430	$1,285
Shares repurchased			
Number of shares (in millions)	**35**	38	36
% of shares outstanding at beginning of year	**2.4%**	2.6%	2.4%

Quaker repurchased common shares totaling $242 million in 2000 and $373 million in 1999.

Subsequent to our merger with Quaker, we repurchased 35 million shares of our common stock at a cost of $1.7 billion under the emergency and exemptive orders from the Securities and Exchange Commission aimed at facilitating the reopening of the U.S. equities market on September 17, 2001, following the September 11th terrorist attacks. Our Board of Directors authorized the repurchase of up to $2 billion worth of our common stock during the terms of the orders. Repurchases under the orders did not compromise our ability to account for the merger with Quaker as a pooling-of-interests. All authorizations for share repurchases have been rescinded as a result of the PepsiCo and Quaker merger.

Liquidity and Capital Resources

Our strong cash-generating capability and financial condition give us ready access to capital markets throughout the world. Our principle source of liquidity is operating cash flows, which are derived from net sales. Macroeconomic conditions may impact the demand for and pricing of our products. Our debt rating of A1 from Moody's and A from Standard & Poor's contributes to our accessibility to global capital markets. These ratings reflect our strong operating cash flows and include the impact of the cash flows and debt of our anchor bottlers. We have maintained these healthy ratings since 1989 demonstrating the stability of our operating cash flows.

At year-end 2001, we maintained $750 million of revolving credit facilities. Of the $750 million, approximately $375 million expires in June 2002 with the remaining $375 million expiring in June 2006. Annually, these facilities are extendable for an additional year upon the mutual consent of PepsiCo and the lending institutions. The credit facilities exist largely to support issuances of short-term debt and remain unused at year-end 2001. At year-end 2001, $375 million of short-term borrowings were reclassified as long-term, reflecting our intent and ability, through the existence of the unused credit facilities, to refinance these borrowings on a long-term basis.

Quaker integration costs will require cash, of which $228 million was paid in 2001. We expect the balance will be paid in 2002 and 2003.

Long-term financial obligations and other commercial commitments

Long-term financial obligations:

		Payments Due by Period			
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt, including current maturities [a]	$2,970	$319	$ 926	$769	$ 956
Operating leases	605	138	206	99	162
Total	$3,575	$457	$1,132	$868	$1,118

(a) As recognized in our Consolidated Balance Sheet.

Our other commercial commitments at December 29, 2001 include:

- the unconditional guarantee of $2.3 billion of Bottling Group, LLC's long-term debt (see Notes 13 and 20 to our consolidated financial statements);
- guarantees of approximately $45 million of debt and other obligations of unconsolidated affiliates;
- commitments for the purchase of goods and services used in the production of our products approximating $2 billion with terms up to 5 years;
- obligations, with terms up to 5 years, related to our bottlers and certain unconsolidated affiliates approximating $425 million that, if triggered, will result in increasing our ownership;
- guarantees approximating $90 million with terms that extend over 5 years related primarily to leases of Tricon Global Restaurants, Inc. (which we spun-off in 1997) and
- other commitments in the normal course of business, including obligations for customer promotional incentives, approximating $60 million with terms primarily extending up to 5 years.

Our commitments for goods and services purchases do not exceed our projected requirements over the related terms and are in the normal course of business.

Consolidated Statement of Income

Fiscal years ended December 29, 2001, December 30, 2000 and December 25, 1999

(in millions except per share amounts)	2001	2000	1999
Net Sales			
New PepsiCo	**$26,935**	$25,479	$22,970
Bottling operations	**–**	–	2,123
Total Net Sales	**26,935**	25,479	25,093
Costs and Expenses			
Cost of sales	**10,754**	10,226	10,326
Selling, general and administrative expenses	**11,608**	11,104	11,018
Amortization of intangible assets	**165**	147	193
Merger-related costs	**356**	–	–
Other impairment and restructuring charges	**31**	184	73
Total Costs and Expenses	**22,914**	21,661	21,610
Operating Profit			
New PepsiCo	**4,021**	3,818	3,430
Bottling operations and equity investments	**–**	–	53
Total Operating Profit	**4,021**	3,818	3,483
Bottling equity income and transaction gains/(losses), net	**160**	130	1,083
Interest expense	**(219)**	(272)	(421)
Interest income	**67**	85	130
Income Before Income Taxes	**4,029**	3,761	4,275
Provision for Income Taxes	**1,367**	1,218	1,770
Net Income	**$ 2,662**	$ 2,543	$ 2,505
Net Income Per Common Share			
Basic	**$ 1.51**	$ 1.45	$ 1.41
Diluted	**$ 1.47**	$ 1.42	$ 1.38

See accompanying notes to consolidated financial statements.

New PepsiCo Net Sales

New PepsiCo Operating Profit

Net Income

Earnings Per Share

Consolidated Statement of Cash Flows

Fiscal years ended December 29, 2001, December 30, 2000 and December 25, 1999

(in millions)	2001	2000	1999
Operating Activities			
Net income	$ 2,662	$ 2,543	$ 2,505
Adjustments to reconcile net income to net cash provided by operating activities			
Bottling equity income and transaction (gains)/losses, net	(160)	(130)	(1,083)
Depreciation and amortization	1,082	1,093	1,156
Merger-related costs	356	–	–
Other impairment and restructuring charges	31	184	73
Cash payments for merger-related costs and other restructuring charges	(273)	(38)	(98)
Deferred income taxes	162	33	573
Deferred compensation – ESOP	48	36	32
Other noncash charges and credits, net	209	303	368
Changes in operating working capital, excluding effects of acquisitions and dispositions			
Accounts and notes receivable	7	(52)	(141)
Inventories	(75)	(51)	(202)
Prepaid expenses and other current assets	(6)	(35)	(209)
Accounts payable and other current liabilities	(236)	219	357
Income taxes payable	394	335	274
Net change in operating working capital	84	416	79
Net Cash Provided by Operating Activities	4,201	4,440	3,605
Investing Activities			
Capital spending	(1,324)	(1,352)	(1,341)
Acquisitions and investments in unconsolidated affiliates	(432)	(98)	(430)
Sales of businesses	–	33	513
Sales of property, plant and equipment	–	57	130
Short-term investments, by original maturity			
More than three months – purchases	(2,537)	(4,950)	(2,209)
More than three months – maturities	2,078	4,585	2,220
Three months or less, net	(41)	(9)	12
Other, net	(381)	(262)	(67)
Net Cash Used for Investing Activities	(2,637)	(1,996)	(1,172)
Financing Activities			
Proceeds from issuances of long-term debt	324	130	3,480
Payments of long-term debt	(573)	(879)	(1,216)
Short-term borrowings, by original maturity			
More than three months – proceeds	788	198	3,699
More than three months – payments	(483)	(155)	(2,758)
Three months or less, net	(397)	1	(2,814)
Cash dividends paid	(994)	(949)	(935)
Share repurchases – common	(1,716)	(1,430)	(1,285)
Share repurchases – preferred	(10)	–	–
Quaker share repurchases	(5)	(254)	(382)
Proceeds from reissuance of shares	524	–	–
Proceeds from exercises of stock options	623	690	383
Net Cash Used for Financing Activities	(1,919)	(2,648)	(1,828)
Effect of exchange rate changes on cash and cash equivalents	–	(4)	3
Net (Decrease)/Increase in Cash and Cash Equivalents	(355)	(208)	608
Cash and Cash Equivalents, Beginning of Year	1,038	1,246	638
Cash and Cash Equivalents, End of Year	$ 683	$ 1,038	$ 1,246
Supplemental Cash Flow Information			
Interest paid	$ 159	$ 226	$ 384
Income taxes paid	$ 857	$ 876	$ 689
Acquisitions:			
Fair value of assets acquired	$ 604	$ 80	$ 717
Cash paid and debt issued	(432)	(98)	(438)
Liabilities assumed	$ 172	$ (18)	$ 279

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

PepsiCo, Inc. and Subsidiaries

December 29, 2001 and December 30, 2000

(in millions except per share amounts)	2001	2000
ASSETS		
Current Assets		
Cash and cash equivalents	$ 683	$ 1,038
Short-term investments, at cost	966	467
	1,649	1,505
Accounts and notes receivable, net	2,142	2,129
Inventories	1,310	1,192
Prepaid expenses and other current assets	752	791
Total Current Assets	5,853	5,617
Property, Plant and Equipment, net	6,876	6,558
Intangible Assets, net	4,841	4,714
Investments in Unconsolidated Affiliates	2,871	2,979
Other Assets	1,254	889
Total Assets	$21,695	$20,757
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term borrowings	$ 354	$ 202
Accounts payable and other current liabilities	4,461	4,529
Income taxes payable	183	64
Total Current Liabilities	4,998	4,795
Long-Term Debt	2,651	3,009
Other Liabilities	3,876	3,960
Deferred Income Taxes	1,496	1,367
Preferred Stock, no par value	26	49
Deferred Compensation – preferred	–	(27)
Common Shareholders' Equity		
Common stock, par value $1^2/_3$¢ per share (issued 1,782 and 2,029 shares, respectively)	30	34
Capital in excess of par value	13	375
Deferred compensation	–	(21)
Retained earnings	11,519	16,510
Accumulated other comprehensive loss	(1,646)	(1,374)
	9,916	15,524
Less: repurchased common stock, at cost (26 and 280 shares, respectively)	(1,268)	(7,920)
Total Common Shareholders' Equity	8,648	7,604
Total Liabilities and Shareholders' Equity	$21,695	$20,757

See accompanying notes to consolidated financial statements.

Consolidated Statement of Common Shareholders' Equity

PepsiCo, Inc. and Subsidiaries

Fiscal years ended December 29, 2001, December 30, 2000 and December 25, 1999

(in millions)	2001 Shares	2001 Amount	2000 Shares	2000 Amount	1999 Shares	1999 Amount
Common Stock						
Balance, beginning of year	**2,029**	**$ 34**	2,030	$ 34	2,037	$ 34
Share repurchases	–	–	(9)	–	(13)	–
Stock option exercises	**6**	–	–	–	–	–
Quaker stock option exercises	**3**	–	8	–	6	–
Shares issued to effect merger	**(256)**	**(4)**	–	–	–	–
Balance, end of year	**1,782**	**30**	2,029	34	2,030	34
Capital in Excess of Par Value						
Balance, beginning of year		**375**		559		904
Share repurchases		–		(236)		(370)
Stock option exercises [(a)]		**82**		52		(21)
Reissued shares		**150**		–		–
Shares issued to effect merger		**(595)**		–		–
Other		**1**		–		46
Balance, end of year		**13**		375		559
Deferred Compensation						
Balance, beginning of year		**(21)**		(45)		(68)
Net activity		**21**		24		23
Balance, end of year		–		(21)		(45)
Retained Earnings						
Balance, beginning of year		**16,510**		14,921		13,356
Net income		**2,662**		2,543		2,505
Shares issued to effect merger		**(6,644)**		–		–
Cash dividends declared – common		**(1,005)**		(950)		(936)
Cash dividends declared – preferred		**(4)**		(4)		(4)
Balance, end of year		**11,519**		16,510		14,921
Accumulated Other Comprehensive Loss						
Balance, beginning of year		**(1,374)**		(1,085)		(1,139)
Currency translation adjustment (CTA)		**(218)**		(289)		(136)
CTA reclassification adjustment		–		–		175
Cash flow hedges, net of tax:						
Cumulative effect of accounting change		**3**		–		–
Derivative (losses)/gains, net		**(21)**		–		–
Minimum pension liability adjustment, net of tax		**(38)**		(2)		17
Other		**2**		2		(2)
Balance, end of year		**(1,646)**		(1,374)		(1,085)
Repurchased Common Stock						
Balance, beginning of year	**(280)**	**(7,920)**	(271)	(7,306)	(255)	(6,535)
Shares repurchased	**(35)**	**(1,716)**	(38)	(1,430)	(36)	(1,285)
Stock option exercises	**20**	**751**	29	816	20	514
Reissued shares	**13**	**374**	–	–	–	–
Shares issued to effect merger	**256**	**7,243**	–	–	–	–
Balance, end of year	**(26)**	**(1,268)**	(280)	(7,920)	(271)	(7,306)
Total Common Shareholders' Equity		**$ 8,648**		$ 7,604		$ 7,078

(a) Includes total tax benefit of $212 in 2001, $177 in 2000 and $105 in 1999.

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1 – Summary of Significant Accounting Policies

On August 2, 2001, we completed our merger transaction, which resulted in The Quaker Oats Company (Quaker) becoming a wholly-owned subsidiary of PepsiCo. As a result, we restated all prior period consolidated financial statements presented to reflect the combined results of operations, financial position and cash flows of both companies as if they had always been merged. See Note 2.

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

Tabular dollars are in millions, except per share amounts. All per share amounts reflect common per share amounts, assume dilution unless noted, and are based on unrounded amounts. Certain reclassifications were made to the 2000 and 1999 amounts to conform to the 2001 presentation.

Items Affecting Comparability

Our fiscal year ends on the last Saturday in December and, as a result, a fifty-third week is added every five or six years. The fiscal year ended December 30, 2000 consisted of fifty-three weeks. The fifty-third week increased 2000 net sales by an estimated $294 million, operating profit by an estimated $62 million and net income by an estimated $44 million or $0.02 per share. See Note 21 for the impact on our business segments.

The consolidated financial statements subsequent to the dates of the bottling transactions described in Note 10 are not comparable to the consolidated financial statements presented for prior periods as certain bottling operations that were previously consolidated are now accounted for under the equity method. In addition, the merger costs described in Note 2, other impairment and restructuring charges described in Note 3, and the income tax adjustment described in Note 14 affect comparability.

Principles of Consolidation

The financial statements include the consolidated accounts of PepsiCo, Inc. and its controlled affiliates. Intercompany balances and transactions have been eliminated. Investments in unconsolidated affiliates over which we exercise significant influence, but not control, are accounted for by the equity method. Our definition of control for majority owned affiliates considers the exercisability of the minority interest rights, and consolidation would be precluded to the extent that the minority interest holds substantive participating rights. Our share of the net income or loss of unconsolidated affiliates accounted for by the equity method is included in consolidated net income.

Issuances of Subsidiary Stock

The issuance of stock by one of our subsidiaries to third parties reduces our proportionate ownership interest in the subsidiary. Unless the issuance of such stock is part of a broader corporate reorganization, we recognize a gain or loss equal to the difference between the issuance price per share and our carrying amount per share. Such gain or loss, net of the related tax, is recognized in consolidated net income when the transaction occurs.

Revenue Recognition

We recognize revenue when products are delivered to customers consistent with sales terms. Sales terms generally do not allow a right of return.

Marketing Costs

Marketing costs are reported in selling, general and administrative expenses and include costs of advertising, promotional programs and other marketing activities. Advertising expenses were $1.7 billion in 2001 and 2000 and $1.6 billion in 1999. Deferred advertising expense classified as prepaid expenses in the Consolidated Balance Sheet was $111 million in 2001 and $127 million in 2000. Deferred advertising costs are expensed in the year first used and consist of:

- media and personal service prepayments,
- promotional materials in inventory, and
- production costs of future media advertising.

We classify promotional payments to customers, including cooperative advertising, as either a reduction of net sales or as marketing costs. During 2000 and 2001, the Financial Accounting Standards Board's (FASB) Emerging Issues Task Force (EITF) addressed various issues related to the income statement classification of certain promotional payments, including consideration from a vendor to a reseller or another party that purchases the vendor's products. EITF 01-9, *Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products,* was issued in November 2001 and codified earlier pronouncements. Primarily effective for 2002, adoption of EITF 01-9 will reduce our net sales by $3.4 billion in 2001, $3.1 billion in 2000 and $2.9 billion in 1999, with selling, general and administrative expenses reduced by the same amounts.

Distribution Costs

Distribution costs are reported in either cost of sales or selling, general and administrative expenses depending on the distribution method, and include the costs of shipping and handling activities. Shipping and handling expenses classified as selling, general and administrative expenses were $2.6 billion in 2001, $2.5 billion in 2000 and $2.4 billion in 1999.

Research and Development Costs

Research and development costs are expensed in the year incurred. Research and development costs were $206 million in 2001, $207 million in 2000 and $187 million in 1999.

Stock-Based Compensation

We measure stock-based compensation cost as the excess of the quoted market price of PepsiCo common stock at the grant date over the amount the employee must pay for the stock (exercise price). Our policy is to generally grant stock options with an exercise price equal to the stock price at the date of grant, and accordingly, no compensation cost is recognized. Under certain prior incentive programs, compensation cost for cash payments expected to be paid to employees in lieu of stock options was based on the grant date value and recognized over the vesting period of the award.

Pension and Postretirement Benefits

Our pension plans cover substantially all full-time U.S. employees and certain international employees. Benefits depend on years of service and earnings or are based on stated amounts for each year of service. Our postretirement plans provide medical and life insurance benefits principally to U.S. retirees and their dependents. Employees are eligible for benefits if they meet age and service requirements and qualify for retirement benefits. Plans generally use a measurement date of September 30. The pre-merger Quaker plans used a measurement date of December 31. Prior service costs are amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits.

Derivative Instruments and Hedging

We manage risks associated with commodity prices, foreign exchange rates, interest rates and our stock price and may use derivatives to hedge these risks. Hedging transactions are executed in accordance with our policies. As a matter of policy, we do not use derivative instruments unless there is an underlying exposure and, therefore, we do not use derivative instruments for trading or speculative purposes. Any change in the value of our derivative instruments would be substantially offset by an opposite change in the value of the underlying hedged items. All derivative instruments are recognized in our Consolidated Balance Sheet at fair value. The fair value of our derivative instruments is generally based on quoted market prices. There is no significant concentration of credit risk or activity with any of the counterparties.

Using qualifying criteria defined in Statement of Financial Accounting Standards No. (SFAS) 133, *Accounting for Derivative Instruments and Hedging Activities*, derivative instruments are designated and accounted for as either fair value or cash flow hedges. Our evaluations of hedge effectiveness are subject to assumptions based on the terms and timing of the underlying exposures. For a fair value hedge, both the effective and ineffective portions of the change in fair value of the derivative instrument, along with an adjustment to the carrying amount of the hedged item for fair value changes attributable to the hedged risk, are recognized in earnings. For a cash flow hedge, changes in the fair value of a derivative instrument that is highly effective are deferred in accumulated other comprehensive income or loss until the underlying hedged item is recognized in earnings. The ineffective portion is recognized in earnings immediately. If a fair value or cash flow hedge was to cease to qualify for hedge accounting or be terminated, it would continue to be carried on the balance sheet at fair value until settled, but hedge accounting would be discontinued prospectively. If a forecasted transaction were no longer probable of occurring, amounts previously deferred in accumulated other comprehensive income would be recognized immediately in earnings.

We are subject to market risk with respect to the cost of commodities because our ability to recover increased costs through higher pricing may be limited by the competitive environment in which we operate. We manage this risk primarily through the use of fixed-price purchase orders, pricing agreements, geographic diversity and derivative instruments. Derivative instruments, including futures, options and swaps, are used to hedge fluctuations in prices of a portion of anticipated commodity purchases, primarily corn, oats, natural gas, heating oil, vegetable oil and packaging materials. Our use of derivative instruments is not significant to our commodity purchases. Derivative instruments designated as hedges of anticipated commodity purchases are accounted for generally as cash flow hedges. The earnings impact from commodity hedges is classified as either cost of sales or selling, general and administrative expenses consistent with the expense classification of the underlying hedged items.

International operations constitute about one-fifth of our annual business segment operating profit. Operating in international markets involves exposure to movements in foreign exchange rates, primarily the Mexican peso, British pound, Canadian dollar, euro and Brazilian real, which principally impacts the translation of our international operating profit into U.S. dollars. On occasion, we may enter into derivative financial instruments, as necessary, to reduce the effect of foreign exchange rate changes. We manage the use of foreign exchange derivatives centrally. Derivative instruments designated as foreign exchange hedges are generally accounted for as fair value hedges. The earnings impact from these hedges is classified as either cost of sales or selling, general and administrative expenses consistent with the expense classification of the underlying hedged items.

We centrally manage our debt and investment portfolios considering investment opportunities and risks, tax consequences and overall financing strategies. We use interest rate and currency swaps to effectively change the interest rate and currency of specific debt issuances, with the objective of reducing our overall borrowing costs. These swaps are entered into concurrently with the issuance of the debt that they are intended to modify. The notional amount, interest payment and maturity date of the swaps match the principal, interest payment and maturity date of the related debt. Our credit risk related to interest rate and currency swaps is considered low because such swaps are entered into only with strong creditworthy counterparties, are generally settled on a net basis and are of relatively short duration. Interest rate and currency swaps are designated as hedges of underlying fixed rate obligations and accounted for as fair value hedges. The earnings impact from these hedges is classified as interest expense.

The portion of our deferred compensation liability, which is based on our stock price, is subject to market risk. Prepaid forward contracts with financial institutions are used to hedge this risk and are accounted for as natural hedges. The earnings impact from these hedges is classified as selling, general and administrative expenses consistent with the expense classification of the deferred compensation liability. Prior to the adoption of SFAS 133, the earnings impact from these equity derivative contracts was classified as interest income.

The cash flows related to the above derivative instruments are classified in the Consolidated Statement of Cash Flows in a manner consistent with those of the transactions being hedged.

Cash Equivalents and Short-Term Investments

Cash equivalents represent funds temporarily invested with original maturities of three months or less. All other investment portfolios are primarily classified as short-term investments.

Inventories

Inventories are valued at the lower of cost (computed on the average, first-in, first-out (FIFO) or last-in, first-out (LIFO) method) or at net realizable value.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is calculated primarily on a straight-line basis. Buildings and improvements are depreciated over their estimated useful lives, generally ranging from 15 to 40 years. Machinery and equipment (including fleet) are depreciated over their estimated useful lives, generally ranging from 5 to 15 years.

Intangible Assets

Goodwill, the excess of our investments in unconsolidated affiliates over our equity in the underlying net assets of these investments, and trademarks and brands are amortized on a straight-line basis over their estimated useful lives, generally ranging from 20 to 40 years. Other identifiable intangibles are amortized on a straight-line basis over their estimated useful lives, generally ranging from 5 to 20 years.

Asset Impairment

All long-lived assets, including goodwill, investments in unconsolidated affiliates and other identifiable intangibles, are evaluated for impairment on the basis of undiscounted cash flows whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impaired asset is written down to its estimated fair market value based on the best information available. Estimated fair market value is generally measured by discounting estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows.

The depreciation or amortization periods for long-lived assets to be held and used are periodically evaluated to determine whether events or circumstances have occurred that warrant revision to the useful lives.

Income Taxes

Deferred taxes are recorded to give recognition to temporary differences between the tax bases of assets or liabilities and their reported amounts in the financial statements. Deferred tax assets generally represent items that can be used as a tax deduction or credit in future years. Deferred tax liabilities generally represent items for which we have taken a tax deduction, but have not yet recorded in the Consolidated Statement of Income. Valuation allowances are established for deferred tax assets where the amount of expected future taxable income from operations does not support the realization of these deferred tax assets.

Deferred tax liabilities are not recognized for temporary differences related to investments in foreign subsidiaries and in unconsolidated foreign affiliates that are essentially permanent in duration. It would not be practicable to determine the amount of any such deferred tax liabilities.

Commitments and Contingencies

We are subject to various claims and contingencies related to lawsuits, taxes and environmental matters, as well as commitments under contractual and other commercial obligations. We recognize liabilities for contingencies and commitments when a loss is probable and estimable.

Accounting Changes

In July 2001, the FASB issued SFAS 141, *Business Combinations*. SFAS 141 eliminates the pooling-of-interests method of accounting for business combinations and modifies the application of the purchase accounting method. The elimination of the pooling-of-interests method is effective for transactions initiated after June 30, 2001. The remaining provisions of SFAS 141 are effective for transactions accounted for using the purchase method that are completed after June 30, 2001. Since our merger with Quaker (see Note 2) was initiated in December 2000 and our acquisition of South Beach Beverage Company, LLC (see Note 4) was completed in January 2001, adoption of this statement does not have an impact on the accompanying consolidated financial statements.

In July 2001, the FASB also issued SFAS 142, *Goodwill and Intangible Assets*. SFAS 142 eliminates the current requirement to amortize goodwill and indefinite-lived intangible assets, addresses the amortization of intangible assets with finite lives and addresses impairment testing and recognition for goodwill and intangible assets. SFAS 142 applies to existing goodwill and intangible assets, as well as to transactions completed after the statement's effective date. SFAS 142 is effective for 2002. Adoption of SFAS 142 will increase income before taxes by approximately $87 million in 2002 reflecting the cessation of goodwill amortization and changes in the lives of other intangibles. The required transition impairment evaluations are not expected to result in impairment charges.

In June 2001, the FASB issued SFAS 143, *Accounting for Asset Retirement Obligations*. SFAS 143 addresses the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It requires that we recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. We are currently assessing SFAS 143 and the impact that adoption, in 2003, will have on our consolidated financial statements.

In August 2001, the FASB issued SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS 144 establishes a single model for the impairment of long-lived assets and broadens the presentation of discontinued operations to include more disposal transactions. SFAS 144 is effective for 2002. Adoption will not have a material impact on our consolidated financial statements.

Note 2 – Merger of PepsiCo and The Quaker Oats Company

Under the Quaker merger agreement dated December 2, 2000, Quaker shareholders received 2.3 shares of PepsiCo common stock in exchange for each share of Quaker common stock, including a cash payment for fractional shares. We issued approximately 306 million shares of our common stock in exchange for all the outstanding common stock of Quaker.

In connection with the merger transaction, we sold the global rights in our All Sport beverage brand to The Monarch Company, Inc. of Atlanta. As part of the terms of the sale, we agreed that, for 10 years after the Quaker transaction closing date, we would not distribute Gatorade sports drink through our bottling system in the United States and would not include Gatorade with Pepsi-Cola products in certain marketing or promotional arrangements covering specific distribution channels.

The merger was accounted for as a tax-free transaction and as a pooling-of-interests. As a result, all prior period consolidated financial statements presented have been restated to include the results of operations, financial position and cash flows of both companies as if they had always been combined. Certain reclassifications were made to conform the presentation of the financial statements, and the fiscal calendar and certain interim reporting policies were also conformed. There were no material transactions between pre-merger PepsiCo and Quaker.

The results of operations of the separate companies and the combined company for the most recent interim period prior to the merger and for the years presented in the consolidated financial statements are as follows:

	24 Weeks Ended 6/16/01 (unaudited)	2000	1999
Net Sales:			
PepsiCo	$ 9,820	$20,438	$20,367
Quaker	2,741	5,041	4,726
Adjustments (a)	(518)	–	–
Combined	$12,043	$25,479	$25,093
Net Income:			
PepsiCo	$ 1,150	$ 2,183	$ 2,050
Quaker	279	360	455
Adjustments (a)	(61)	–	–
Combined	$ 1,368	$ 2,543	$ 2,505

(a) Adjustments reflect the impact of changing Quaker's fiscal calendar to conform to PepsiCo's and conforming the accounting policies of the two companies applicable to interim reporting. These changes have no impact on full year net sales or net income.

During 2001, we recognized costs of $356 million associated with our merger with Quaker. The components of these merger-related costs were as follows:

Transaction costs	$ 117
Integration and restructuring costs	239
Total merger-related costs	$ 356
After-tax	$ 322
Per share	$0.18

Transaction costs were incurred to complete the merger and consist primarily of fees and expenses for investment bankers, attorneys and accountants, SEC filing fees, stock exchange listing fees and financial printing and other related charges.

Integration costs represent incremental one-time merger-related costs. Such costs include consulting fees and expenses, expenses for accelerated vesting under change-in-control provisions, information system integration costs and employee-related costs.

The restructuring charges primarily reflect termination costs for approximately 580 corporate, sales, distribution, manufacturing, research and marketing employees. Employee termination costs include retirement benefit costs, severance costs and expenses associated with change-in-control provisions of pre-merger employment contracts. As of December 29, 2001, approximately 380 of the terminations have occurred. The terminations are expected to be completed during 2002.

We expect to incur additional costs to integrate the two companies.

Analysis of merger-related integration and restructuring reserves:

	Integration	Employee Related	Facility and Other Exit	Total
2001 costs	$124	$106	$ 9	$ 239
Cash payments	(80)	(33)	(2)	(115)
Reclassification of postretirement/ postemployment liabilities	–	(22)	–	(22)
Other noncash utilization	(22)	–	(3)	(25)
Reserves, December 29, 2001	$ 22	$ 51	$ 4	$ 77

These reserves are included in accounts payable and other current liabilities in the Consolidated Balance Sheet.

Note 3 – Other Impairment and Restructuring Charges

	2001	2000	1999
Asset impairment charges			
Held and used in the business			
Property, plant and equipment	$ 19	$ 125	$ 8
Held for disposal/abandonment			
Property, plant and equipment	–	–	34
Total asset impairment	19	125	42
Restructuring charges			
Employee-related costs	–	41	20
Other charges	12	18	11
Total restructuring	12	59	31
Total	$ 31	$ 184	$ 73
After-tax	$ 19	$ 111	$ 45
Per share	$0.01	$0.06	$0.02

2001 and 2000

The 2001 and 2000 other impairment and restructuring charges relate to a three-year supply chain reconfiguration project announced in 1999 to upgrade and optimize Quaker's manufacturing and distribution capabilities across all of its North American businesses.

The asset impairment charges primarily reflect the reduction in the carrying value of the land, buildings and production machinery and equipment to their estimated fair market value based on analyses of the liquidation values of similar assets. The restructuring charges primarily included severance and termination benefits for approximately 1,000 employees and other shutdown costs. No future charges are expected on this project.

1999

The 1999 other impairment and restructuring charges of $73 million were comprised of the following:

- A charge of $65 million, for asset impairment of $37 million and restructuring charges of $28 million, related to the closure of three plants and impairment of equipment at Frito-Lay North America. The asset impairment charges primarily reflected the reduction in the carrying value of the land and buildings to their estimated fair market value based on selling prices for comparable real estate, less costs to sell, and the write off of the net book value of equipment which could not be redeployed. The plant closures were completed during 1999. The majority of these assets were either disposed of or abandoned in 1999. The restructuring charges of $28 million primarily included severance costs and plant closing costs.
- A charge of $8 million, for asset impairment of $5 million and restructuring charges of $3 million, related to the previously discussed Quaker supply chain reconfiguration project. The charge included costs to consolidate several cereal manufacturing lines and employee-related costs.

The employee-related costs for 1999 of $20 million primarily included severance and early retirement benefits for approximately 930 employees. Substantially all of the terminations occurred during 1999.

Analysis of other restructuring reserves:

	Employee Related	Facility Closure	Third-Party Termination	Other	Total
Reserve, December 26, 1998	$ 70	$ 28	$ 62	$ 1	$ 161
1999 restructuring charges	20	8	–	3	31
Cash payments	(44)	(5)	(47)	(2)	(98)
Noncash utilization	(3)	(4)	–	–	(7)
Separation of PBG (see Note 10)	(25)	(5)	(5)	–	(35)
Reserve, December 25, 1999	18	22	10	2	52
2000 restructuring charges	41	18	–	–	59
Cash payments	(13)	(24)	(1)	–	(38)
Noncash utilization	(3)	(3)	–	–	(6)
Changes in estimate	–	(4)	–	–	(4)
Reserve, December 30, 2000	43	9	9	2	63
2001 restructuring charges	**–**	**12**	**–**	**–**	**12**
Cash payments	**(28)**	**(17)**	**–**	**–**	**(45)**
Changes in estimate	**1**	**(1)**	**–**	**–**	**–**
Reclassification to postretirement liabilities	**(7)**	**–**	**–**	**–**	**(7)**
Reserve, December 29, 2001	**$ 9**	**$ 3**	**$ 9**	**$ 2**	**$ 23**

The restructuring reserves are included in accounts payable and other current liabilities in the Consolidated Balance Sheet. Third-party termination costs involve indemnifications by PepsiCo for ongoing litigation.

Note 4 – Acquisition of South Beach Beverage Company, LLC

On January 5, 2001, we completed the acquisition of South Beach Beverage Company, LLC for approximately $337 million in cash. As of December 29, 2001, we own a 93% interest in the newly formed South Beach Beverage Company, Inc. (SoBe). SoBe manufactures and markets an innovative line of alternative non-carbonated beverages including fruit blends, energy drinks, dairy-based drinks, exotic teas and other beverages with herbal ingredients, which prior to our acquisition were distributed under license by a network of independent distributors, primarily in the United States.

Note 5 – Net Income Per Common Share

Basic net income per common share is calculated by dividing net income available to common shareholders by the weighted average of common shares outstanding during the period. Diluted net income per common share is calculated using the weighted average of common shares outstanding adjusted to include the potentially dilutive effect of convertible stock or stock options.

The computations of basic and diluted net income per common share are as follows:

	2001		2000		1999	
	Income	**Average Shares Out-standing**	Income	Average Shares Out-standing	Income	Average Shares Out-standing
Net income	**$2,662**		$2,543		$2,505	
Preferred shares:						
Dividends	**(4)**		(4)		(4)	
Redemption	**(1)**		–		–	
Net income available for common shareholders	**$2,657**	**1,763**	$2,539	1,748	$2,501	1,774
Basic net income per common share	**$ 1.51**		$ 1.45		$ 1.41	
Net income available for common shareholders	**$2,657**	**1,763**	$2,539	1,748	$2,501	1,774
Dilutive securities:						
Stock options	**–**	**39**	–	38	–	37
ESOP convertible preferred stock	**3**	**4**	2	4	2	5
Unvested stock awards	**–**	**1**	–	1	–	1
Diluted	**$2,660**	**1,807**	$2,541	1,791	$2,503	1,817
Diluted net income per common share	**$ 1.47**		$ 1.42		$ 1.38	

Diluted net income per common share excludes incremental shares of 0.4 million in 2001, 0.1 million in 2000 and 49.0 million in 1999 related to employee stock options due to their antidilutive effect at each respective year end.

Note 6 – Accounts and Notes Receivable, net

	2001	2000	1999
Trade receivables	$ 1,663	$ 1,613	
Receivables from affiliates	171	190	
Other receivables	429	452	
	2,263	2,255	
Allowance, beginning of year	126	109	$ 148
Charged to expense	41	42	32
Other additions	2	8	5
Deductions	(48)	(33)	(76)
Allowance, end of year	121	126	$ 109
Net receivables	$ 2,142	$ 2,129	

Other additions include acquisitions, currency translation effects and reclassifications. Deductions include the impact of the bottling transactions, accounts written off and currency translation effects.

Note 7 – Inventories

	2001	2000
Raw materials	$ 535	$ 503
Work-in-process	205	160
Finished goods	570	529
	$ 1,310	$ 1,192

The cost of approximately 20% of 2001 and 2000 inventories was computed using the LIFO method. The differences between LIFO and FIFO methods of valuing these inventories for 2001 and 2000 are not material.

Note 8 – Property, Plant and Equipment, net

	2001	2000
Land and improvements	$ 464	$ 435
Buildings and improvements	2,846	2,722
Machinery and equipment, including fleet	8,135	7,522
Construction in progress	735	787
	12,180	11,466
Accumulated depreciation	(5,304)	(4,908)
	$ 6,876	$ 6,558

Depreciation expense was $843 million in 2001, $840 million in 2000 and $873 million in 1999.

Note 9 – Intangible Assets, net

	2001	2000
Goodwill	$ 3,374	$ 3,522
Trademarks and brands	1,320	994
Other identifiable intangibles	147	198
	$ 4,841	$ 4,714

Identifiable intangible assets possess economic value but lack physical substance. These assets primarily arise from the allocation of purchase prices of businesses acquired. Amounts assigned to such identifiable intangibles are based on independent appraisals or internal estimates. Goodwill represents the excess purchase price after allocation to all identifiable net assets.

The above amounts are presented net of accumulated amortization of $1 billion at year-end 2001 and $0.9 billion at year-end 2000.

Note 10 – Investments in Unconsolidated Affiliates

During 1999, we completed a series of transactions creating our anchor bottlers that manufacture, sell and distribute carbonated and non-carbonated Pepsi-Cola beverages under master bottling agreements with us.

In April 1999, certain wholly-owned bottling businesses, referred to as The Pepsi Bottling Group (PBG), completed an initial public offering with PepsiCo retaining a direct noncontrolling ownership interest of 35.5%. We received $5.5 billion of debt proceeds as settlement of pre-existing intercompany amounts due to us and recognized a pre-tax gain of $1.0 billion ($476 million after-tax or $0.26 per share) as a result of the transaction. In May, we combined certain other bottling operations with Whitman Corporation to create new Whitman, retaining a noncontrolling ownership interest of approximately 38%. The transaction resulted in an after-tax loss to PepsiCo of $206 million or $0.11 per share. In July, we combined certain other bottling operations with PepCom Industries, Inc. retaining a noncontrolling interest of 35% in the combined entity renamed Pepsi Bottling Ventures, LLC. This transaction was accounted for as a nonmonetary exchange for book purposes. However, a portion of the transaction was taxable and resulted in income tax expense of $25 million or $0.01 per share. In October, we formed a business venture with Pohlad Companies, a Pepsi-Cola franchisee, retaining a noncontrolling ownership interest of approximately 24% in the venture's principal operating subsidiary, PepsiAmericas, Inc. The transaction was structured as a fair value exchange with no resulting gain or loss.

In December 2000, Whitman merged with PepsiAmericas. At year-end 2001, we owned approximately 37% of the combined company. As part of the merger, we participate in an earn-out option whereby we may receive additional shares when certain performance targets are met. Effective January 2001, the name of the combined company was changed to PepsiAmericas.

PBG

In addition to approximately 38% of PBG's outstanding common stock that we own at year-end 2001, we own 100% of PBG's class B common stock and approximately 7% of the equity of Bottling Group, LLC, PBG's principal operating subsidiary. This gives us economic ownership of approximately 42% of PBG's combined operations.

PBG's summarized financial information is as follows:

	2001	2000
Current assets	$1,548	$1,584
Noncurrent assets	6,309	6,152
Total assets	$7,857	$7,736
Current liabilities	$1,081	$ 967
Noncurrent liabilities	4,856	4,817
Minority interest	319	306
Total liabilities	$6,256	$6,090
Our equity investment	$ 962	$ 934

	2001	2000	1999
Net sales	$8,443	$7,982	$7,505
Gross profit	$3,863	$3,577	$3,209
Operating profit	$ 676	$ 590	$ 412
Net income	$ 305	$ 229	$ 118

The excess of our investment in PBG over our equity in the underlying net assets, net of amortization, was approximately $24 million at year-end 2001. Based upon the quoted closing price of PBG shares at year-end 2001, the calculated market value of our direct investment in PBG, excluding our investment in Bottling Group, LLC, exceeded our carrying value by approximately $1.9 billion.

PepsiAmericas (formerly Whitman)

PepsiAmericas' summarized financial information is as follows:

	2001	2000
Current assets	$ 481	$ 477
Noncurrent assets	2,938	2,859
Total assets	$3,419	$3,336
Current liabilities	$ 653	$ 887
Noncurrent liabilities	1,336	999
Total liabilities	$1,989	$1,886
Our equity investment	$ 746	$ 741

	2001	2000	1999
Net sales	$3,171	$2,528	$2,138
Gross profit	$1,259	$1,033	$ 890
Operating profit	$ 268	$ 223	$ 182
Income from continuing operations	$ 90	$ 72	$ 43
Net income /(loss)	$ 19	$ 80	$ (9)

The above financial information for 2000 includes the results of the former PepsiAmericas after the date of the merger with Whitman.

The excess of our investment in PepsiAmericas over our equity in the underlying net assets, net of amortization, was approximately $212 million at year-end 2001. Based upon the quoted closing price at year-end 2001, the calculated market value of our investment in PepsiAmericas exceeded our carrying value by approximately $68 million.

Other Equity Investments

Summarized financial information regarding our principal equity investments, other than PBG and PepsiAmericas, follows. These investments are noncontrolling interests in bottling and snack food businesses. Information is presented in the aggregate and generally from the acquisition date.

	2001	2000
Current assets	$ 953	$1,033
Noncurrent assets	1,970	2,200
Total assets	$2,923	$3,233
Current liabilities	$1,053	$ 972
Noncurrent liabilities	249	578
Minority interest	3	35
Total liabilities	$1,305	$1,585
Our related equity investments	$ 906	$1,030

	2001	2000	1999
Net sales	$4,314	$4,714	$3,754
Gross profit	$2,132	$2,066	$1,691
Net income/(loss)	$ 109	$ 79	$ (10)

Related Party Transactions

Our significant related party transactions involve our investments in unconsolidated bottling affiliates. We sell concentrate to these affiliates that is used in the production of carbonated soft drinks and non-carbonated beverages. We also sell certain finished goods and we receive royalties for the use of our trademark for certain products. The affiliates purchase sweeteners and certain other raw materials through us. The raw material purchases on behalf of these bottling affiliates, related payments to suppliers and collections from the bottlers are not reflected in our consolidated financial statements. We also provide certain administrative and other services to these bottling affiliates under negotiated fee arrangements.

Further, because we share a common business objective with these bottling affiliates of increasing the availability and consumption of Pepsi-Cola beverages, we provide various forms of marketing support to or on behalf of them to promote our beverages. This support covers a variety of initiatives, including marketplace support, marketing programs, capital equipment investment and shared media expense. Based on the objective of the programs and initiatives, we record marketing support as an adjustment to net sales or as selling, general and administrative expenses.

These transactions with our unconsolidated bottling affiliates are reflected in the Consolidated Statement of Income as follows:

	2001	2000	1999
Net sales	$2,976	$2,706	$1,924
Selling, general and administrative expenses	$ 925	$ 733	$ 627

As of December 29, 2001, the receivables from these bottling affiliates are $119 million and payables to these affiliates are $108 million. As of December 30, 2000, the receivables from these bottling affiliates were $187 million and payables to these affiliates were $125 million. Such amounts are settled on terms consistent with other trade receivables and payables. See Notes 13 and 20 regarding our guarantee of PBG related debt.

Note 11 – Accounts Payable and Other Current Liabilities

	2001	2000
Accounts payable	**$1,238**	$1,212
Accrued selling, advertising and marketing	**861**	986
Accrued compensation and benefits	**789**	809
Dividends payable	**255**	240
Insurance accruals	**158**	227
Other current liabilities	**1,160**	1,055
	$4,461	$4,529

Note 12 – Short-Term Borrowings and Long-Term Debt

	2001	2000
Short-term borrowings		
Current maturities of long-term debt	**$ 319**	$ 453
Other borrowings (6.4% and 7.1%)	**410**	499
Amounts reclassified to long-term debt	**(375)**	(750)
	$ 354	$ 202
Long-term debt		
Short-term borrowings, reclassified	**$ 375**	$ 750
Notes due 2002-2026 (4.1% and 6.7%)	**1,986**	1,924
Various foreign currency debt, due 2001 (6.5%)	**–**	219
Zero coupon notes, $735 million due 2011-2012 (13.4%)	**356**	339
Other, due 2002-2015 (6.9% and 7.6%)	**253**	230
	2,970	3,462
Less current maturities of long-term debt	**(319)**	(453)
	$2,651	$3,009

The weighted average interest rates in the above table include the effects of associated interest rate and currency swaps at year-end 2001 and 2000. Also, see Notes 1 and 13 for a discussion of our use of interest rate and currency swaps, our management of the inherent credit risk and fair value information related to debt and interest rate and currency swaps.

Interest Rate Swaps

The following table indicates the notional amount and weighted average interest rates of interest rate swaps outstanding at year-end 2001 and 2000. The weighted average variable interest rates that we pay, which are primarily linked to either commercial paper or LIBOR rates, are based on rates as of the respective balance sheet date and are subject to change.

	2001	2000
Receive fixed-pay variable		
Notional amount	**$1,077**	$1,335
Weighted average receive rate	**5.6%**	4.4%
Weighted average pay rate	**1.7%**	4.9%

The terms of the interest rate swaps match the terms of the debt they modify. The swaps terminate at various dates through 2011. At year-end 2001, approximately 52% of total debt, including the effects of the associated interest rate swaps, was exposed to variable interest rates, compared to 55% in 2000. In addition to variable rate long-term debt, all short-term borrowings are categorized as variable for purposes of this measure.

Currency Swaps

We entered into currency swaps to hedge our currency exposure on certain non-U.S. dollar denominated debt upon issuance of such debt. The terms of the currency swaps matched the terms of the debt they modify. We have no currency swaps at December 29, 2001.

At year-end 2000, the foreign currency risk that related to debt denominated in Swiss francs and Luxembourg francs with an aggregate carrying amount of $122 million was hedged by currency swaps. The payables under related currency swaps were $43 million, resulting in an effective U.S. dollar liability of $165 million with a weighted average interest rate of 6.6%.

Revolving Credit Facilities

At year-end 2001, we maintained $750 million of revolving credit facilities. Of the $750 million, approximately $375 million expires in June 2002 with the remaining $375 million expiring in June 2006. The credit facilities exist largely to support issuances of short-term debt and remain unused at year-end 2001. Annually, these facilities are extendable an additional year upon the mutual consent of PepsiCo and the lending institutions. These facilities are subject to normal banking terms and conditions.

The reclassification of short-term borrowings to long-term debt reflects our intent and ability, through the existence of the unused credit facilities, to refinance these borrowings on a long-term basis.

Long-term debt outstanding at December 29, 2001, matures as follows:

	2002	2003	2004	2005	2006	Thereafter
Maturities	$319	$ 485	$ 441	$167	$ 602	$ 956

Note 13 – Derivative and Financial Instruments

On December 31, 2000, we adopted SFAS 133. SFAS 133 establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that we recognize all derivative instruments as either assets or liabilities in the Consolidated Balance Sheet and measure those instruments at fair value. The adoption of SFAS 133 on December 31, 2000 increased assets by approximately $12 million and liabilities by approximately $10 million with approximately $3 million recognized in accumulated other comprehensive income and a loss of less than $1 million recognized in the Consolidated Statement of Income. Accumulated other comprehensive loss included net accumulated derivative losses of $18 million as of December 29, 2001.

Cash Flow Hedges

During the next twelve months, we expect to reclassify losses of approximately $1 million from accumulated other comprehensive income into earnings. All cash flow hedges at December 29, 2001 are for periods of less than two years. Ineffectiveness resulting from cash flow hedging activities was not material to our results of operations. No cash flow hedges were discontinued during the year ended December 29, 2001 as a result of anticipated transactions that are no longer probable of occurring.

Fair Value Hedges

Ineffectiveness resulting from fair value hedging activities was not material to our results of operations. All components of each derivative's gain or loss are included in the assessment of hedge effectiveness. In 2001, there were no hedged firm commitments that no longer qualified as fair value hedges. See Note 12 for the notional amounts, related interest rates and maturities of the interest rate and currency swaps.

Prepaid Forward Contracts

The change in the fair value of these equity derivative contracts resulted in $1 million of expense during 2001, $19 million of income during 2000 and $6 million of expense during 1999. These changes in fair value were substantially offset by opposite changes in the amount of the underlying deferred compensation liability.

Fair Value

Carrying amounts and fair values of our derivative and financial instruments:

	2001		2000	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	**$ 683**	**$ 683**	$1,038	$1,038
Short-term investments	**$ 966**	**$ 966**	$ 467	$ 467
Forward exchange contracts (a)	**$ 6**	**$ 6**	$ –	$ –
Commodity contracts (a)	**$ 1**	**$ 1**		
Equity derivative contracts (a)	**$ 65**	**$ 65**	$ 66	$ 66
Interest rate swaps (a)	**$ 32**	**$ 32**	$ –	$ 12
Liabilities				
Forward exchange contracts (b)	**$ 2**	**$ 2**	$ 9	$ 9
Commodity contracts (b)	**$ 17**	**$ 17**		
Short-term borrowings and long-term debt, excluding capital leases	**$3,001**	**$3,266**	$3,205	$3,392
Interest rate swaps (b)	**$ –**	**$ –**	$ –	$ 5
Combined currency and interest rate swaps (c)	**$ –**	**$ –**	$ 43	$ 46

Included in the Consolidated Balance Sheet under the captions noted above or as indicated below.

(a) Included in Prepaid Expenses and Other Current Assets.

(b) Included in Accounts Payable and Other Current Liabilities.

(c) Included in Long-Term Debt.

Because of the short maturity of cash equivalents and short-term investments, the carrying amounts approximate fair values. Short-term investments consist primarily of debt securities and have been classified as held-to-maturity. The fair values of commodity contracts, debt, debt-related derivatives and foreign exchange derivatives were estimated using market quotes and calculations based on market rates. We have unconditionally guaranteed $2.3 billion of Bottling Group, LLC's long-term debt. The guarantee had a fair value of $59 million at December 29, 2001 and $66 million at December 30, 2000 based on market rates.

Note 14 – Income Taxes

		2001	2000	1999
Income before income taxes:				
U.S.		**$ 2,922**	$2,574	$3,350
Foreign		**1,107**	1,187	925
		$ 4,029	$3,761	$4,275
Provision for income taxes:				
Current:	U.S. Federal	**$ 926**	$ 958	$ 819
	Foreign	**226**	165	322
	State	**53**	62	56
		1,205	1,185	1,197
Deferred:	U.S. Federal	**159**	31	559
	Foreign	**(8)**	(7)	(17)
	State	**11**	9	31
		162	33	573
		$ 1,367	$1,218	$1,770
Tax rate reconciliation:				
U.S. Federal statutory tax rate		**35.0%**	35.0%	35.0%
State income tax, net of U.S. Federal tax benefit		**1.0**	1.2	1.3
Lower taxes on foreign results		**(4.3)**	(2.9)	(2.5)
Bottling transactions		**–**	–	9.0
Merger-related costs and other impairment and restructuring charges		**2.3**	(0.2)	–
Other, net		**(0.1)**	(0.7)	(1.4)
Effective tax rate		**33.9%**	32.4%	41.4%

In 1999, Quaker adjusted its tax accruals and tax assets to reflect developments and information received during the year. The net effect of these adjustments, which are included above in Other, net, reduced our 1999 provision for income taxes by $59 million or $0.03 per share.

Deferred tax liabilities/(assets):

	2001	2000
Investments in unconsolidated affiliates	$ 702	$ 672
Property, plant and equipment	804	742
Safe harbor leases	82	94
Zero coupon notes	68	73
Intangible assets other than nondeductible goodwill	121	105
Other	480	448
Gross deferred tax liabilities	$ 2,257	$ 2,134
Net carryforwards	(556)	(816)
Postretirement benefits	(320)	(311)
Various current and noncurrent liabilities	(805)	(869)
Gross deferred tax assets	(1,681)	(1,996)
Deferred tax asset valuation allowances	529	822
Deferred tax assets, net	(1,152)	(1,174)
Net deferred tax liabilities	$ 1,105	$ 960
Included in:		
Prepaid expenses and other current assets	$ (391)	$ (407)
Deferred income taxes	1,496	1,367
	$ 1,105	$ 960

Net operating loss carryforwards totaling $3.2 billion at year-end 2001 are being carried forward and are available to reduce future taxable income of certain subsidiaries in a number of foreign and state jurisdictions. These net operating losses will expire as follows: $0.1 billion in 2002, $2.8 billion between 2002 and 2017 and $0.3 billion may be carried forward indefinitely. In addition, tax credit carryforwards of approximately $90 million are available to reduce certain foreign tax liabilities through 2011.

Analysis of valuation allowances:

	2001	2000	1999
Balance, beginning of year	$ 822	$ 810	$ 926
(Benefit)/provision	(291)	10	73
Other (deductions)/additions	(2)	2	(189)
Balance, end of year	$ 529	$ 822	$ 810

Other deductions/additions include the effects of currency translation and, in 1999, the impact of the bottling transactions.

Note 15 – Preferred and Common Stock

As of December 29, 2001, there were 3.6 billion shares of common stock and 3 million shares of convertible preferred stock authorized, which are designated as $5.46 cumulative preferred convertible stock. Of the authorized convertible preferred shares, 803,953 shares were issued and 736,153 shares were outstanding. Each share is convertible at the option of the holder into 4.9625 shares of common stock. The convertible preferred shares may be called for redemption at $78 per share plus accrued and unpaid dividends upon written notice. The convertible preferred stock was issued only for the ESOP and will not be traded on the open market.

Preferred stock activity:

	2001		2000		1999	
	Shares	Amount	Shares	Amount	Shares	Amount
Balance, beginning of year	0.8	$ 49	0.9	$ 61	1.0	$70
Redemptions	(0.1)	(23)	(0.1)	(12)	(0.1)	(9)
Balance, end of year	0.7	$ 26	0.8	$ 49	0.9	$61

Note 16 – Other Comprehensive Loss

The accumulated balances related to each component of other comprehensive loss were as follows:

	2001	2000	1999
Currency translation adjustment	$(1,587)	$(1,369)	$(1,080)
Cash flow hedges, net of tax: (a)			
Cumulative effect of accounting change	3	–	–
Derivative (losses)/gains, net	(21)	–	–
Minimum pension liability adjustment (a) (b)	(43)	(5)	(3)
Other	2	–	(2)
Accumulated other comprehensive loss	$(1,646)	$(1,374)	$(1,085)

(a) Includes $7 for our share of our equity investees' accumulated derivative losses and $29 for our share of our equity investees' minimum pension liability adjustments.

(b) Net of taxes of $22 in 2001, $3 in 2000 and $2 in 1999.

Note 17 – Employee Stock Options

Stock options have been granted to employees under four different incentive plans:

- the PepsiCo SharePower Stock Option Plan (SharePower);
- the PepsiCo Long-Term Incentive Plan (LTIP);
- the PepsiCo Stock Option Incentive Plan (SOIP); and
- the Quaker Long-Term Incentive Plan (Quaker LTIP).

SharePower

SharePower stock options are granted to essentially all full-time employees. SharePower options generally have a 10-year term. Beginning in 1998, the number of SharePower options granted is based on each employee's annual earnings and tenure. These options generally become exercisable after three years. Prior to 1998, the number of options granted was based on each employee's annual earnings and generally became exercisable ratably over five years.

LTIP

All senior management and certain middle management awards are made under the LTIP. Under the LTIP, awards are generally based on a multiple of base salary. The options generally become exercisable at the end of three years and have a 10-year term. In 2001, the entire award was made in stock options with an exercise price equal to the average stock price on the date of the award. From 1998 through 2000, two-thirds of the award consisted of stock options with the balance paid in stock options or cash. At the date of these awards, the employee selected whether the remaining one-third of the award will be granted in stock options or paid in cash at the end of three years. The number of options granted or the cash payment, if any, depended on the attainment of prescribed performance goals over the three-year measurement period. If stock options were selected, they will be granted with an exercise price equal to the average stock price on the date of the grant, will vest immediately and have a 10-year term. If a cash payment is selected, one dollar of cash will be received for every four dollars of the award. Amounts expensed for expected cash payments were $64.0 million in 2001, $36.7 million in 2000 and $17.9 million in 1999. At year-end 2001, 57 million shares were available for grants under the LTIP.

SOIP

Grants under the SOIP are available to middle management employees. Under the SOIP, an employee generally receives an award based on a multiple of base salary. The options generally become exercisable at the end of three years and have a 10-year term. The entire award is made in stock options with an exercise price equal to the average stock price on the date of the award. At year-end 2001, 39 million shares were available for grants under the SOIP.

Quaker LTIP

Grants under the Quaker LTIP were made to officers and other key employees. This program provided for benefits to be awarded in a variety of ways, with stock options being used most frequently. Approximately 12 million shares of Quaker common stock were authorized for grant under the Quaker LTIP. Stock options were granted for the purchase of common stock at a price not less than the fair market value on the date of grant. Options were generally exercisable after one or more years and expire no later than 10 years from the date of grant. This plan provided that, in the event of a change in control of Quaker, stock options become exercisable. Accordingly, upon approval by the Quaker shareholders of the merger, unvested options under this plan were vested. Upon consummation of the merger, these options were converted to PepsiCo stock options.

Stock option activity:

(Options in thousands)	2001		2000		1999	
	Options	**Weighted Average Exercise Price**	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	**170,640**	**$28.08**	188,661	$25.82	173,691	$22.43
Granted	**40,432**	**43.53**	28,660	31.92	48,711	33.90
Exercised	**(29,064)**	**21.59**	(37,039)	18.40	(24,846)	15.84
Forfeited/expired	**(5,086)**	**34.83**	(9,642)	33.93	(8,895)	32.06
Outstanding at end of year	**176,922**	**32.35**	170,640	28.08	188,661	25.82
Exercisable at end of year [(a)]	**83,521**	**$26.32**	75,129	$21.27	90,826	$18.65
Weighted average fair value of options granted		**$13.53**		$12.04		$10.65

(a) In connection with the 1999 bottling transactions, substantially all unvested PepsiCo stock options held by bottling employees vested. The acceleration resulted in a $46 pre-tax charge included in the determination of the related net gain.

Stock options outstanding and exercisable (in thousands) at December 29, 2001:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
$ 4.25 to $14.20	2,975	1.49 yrs.	$ 8.56	2,975	$ 8.56
$14.28 to $33.04	77,165	4.85	24.99	56,023	22.37
$34.00 to $49.00	96,782	8.02	39.13	24,523	37.43
	176,922	6.44	32.35	83,521	26.32

Pro forma income and pro forma income per common share, as if we had recorded compensation expense based on fair value for stock-based awards:

	2001	2000	1999
Reported			
Net income	**$2,662**	$ 2,543	$ 2,505
Net income per common share – basic	**$ 1.51**	$ 1.45	$ 1.41
Net income per common share – diluted	**$ 1.47**	$ 1.42	$ 1.38
Pro forma			
Net income	**$2,356**	$ 2,343	$ 2,343
Net income per common share – basic	**$ 1.33**	$ 1.34	$ 1.32
Net income per common share – diluted	**$ 1.30**	$ 1.31	$ 1.29

We estimate the fair value of stock-based awards using the Black-Scholes option-pricing model based on the following weighted average assumptions for options granted during the year:

	2001	2000	1999
Risk free interest rate	**4.8%**	6.7%	5.2%
Expected life	**5 yrs.**	5 yrs.	5 yrs.
Expected volatility	**29%**	29%	27%
Expected dividend yield	**0.98%**	1.08%	1.34%

Note 18 – Deferred Compensation – ESOP

Quaker established an ESOP for the benefit of its employees to issue debt and to use the proceeds of such debt to acquire shares of stock for future allocation to ESOP participants. The final ESOP award was made in June 2001. The ESOP borrowings are included in long-term debt in the Consolidated Balance Sheet. As annual contributions were made to the ESOP, these contributions, along with the dividends accumulated on the common and preferred stock held by the ESOP, were used to repay the outstanding loans. As the loans were repaid, common and preferred stock were allocated to ESOP participants and deferred compensation was reduced by the amount of the principal payments on the loans.

The following table presents the ESOP loan payments:

	2001	2000
Principal payments	**$40**	$37
Interest payments	**3**	6
Total ESOP payments	**$43**	$43

As of December 29, 2001, 11 million shares of common stock and 0.7 million shares of preferred stock were held in the accounts of ESOP participants.

Note 19 – Pension and Postretirement Benefits

	2001	2000	1999
Components of net periodic pension cost:			
Service cost	**$ 127**	$ 120	$ 133
Interest cost	**233**	221	209
Expected return on plan assets	**(301)**	(277)	(269)
Amortization of transition asset	**(2)**	(3)	(3)
Amortization of prior service amendments	**8**	13	11
Amortization of (gain)/loss	**(9)**	(18)	15
Net periodic benefit cost	**56**	56	96
Curtailment/settlement loss	**1**	6	54
Special termination benefits	**26**	–	10
Net pension cost	**$ 83**	$ 62	$ 160
Components of net periodic postretirement cost:			
Service cost	**$ 20**	$ 22	$ 23
Interest cost	**63**	58	54
Amortization of prior service amendments	**(12)**	(12)	(14)
Amortization of gain	**–**	(1)	(1)
Net periodic benefit cost	**71**	67	62
Curtailment loss	**–**	2	–
Special termination benefits	**1**	–	3
Net postretirement cost	**$ 72**	$ 69	$ 65

	2001	2000	2001	2000
	Pension		Postretirement	
Change in benefit obligation:				
Obligation at beginning of year	**$3,170**	$3,009	**$ 834**	$ 740
Service cost	**127**	120	**20**	22
Interest cost	**233**	221	**63**	58
Plan amendments	**10**	3	**1**	–
Participant contributions	**5**	6	**–**	1
Actuarial loss	**170**	6	**50**	48
Acquisitions	**–**	3	**–**	–
Benefit payments	**(170)**	(166)	**(58)**	(43)
Curtailment/settlement loss	**2**	6	**–**	8
Special termination benefits	**26**	–	**1**	–
Foreign currency adjustment	**(17)**	(38)	**–**	–
Obligation at end of year	**$3,556**	$3,170	**$ 911**	$ 834
Change in fair value of plan assets:				
Fair value at beginning of year	**$3,251**	$3,053	**$ –**	$ –
Actual (loss)/gain on plan assets	**(382)**	281	**–**	–
Acquisitions	**–**	14	**–**	–
Employer contributions	**446**	103	**58**	42
Participant contributions	**5**	6	**–**	1
Benefit payments	**(170)**	(166)	**(58)**	(43)
Foreign currency adjustment	**(21)**	(40)	**–**	–
Fair value at end of year	**$3,129**	$3,251	**$ –**	$ –
Funded status as recognized in the Consolidated Balance Sheet:				
Funded status at end of year	**$ (427)**	$ 81	**$(911)**	$(834)
Unrecognized prior service cost	**38**	49	**(5)**	(17)
Unrecognized loss/(gain)	**548**	(349)	**91**	41
Unrecognized transition asset	**(2)**	(3)	**–**	–
Net amounts recognized	**$ 157**	$ (222)	**$(825)**	$(810)
Net amounts as recognized in the Consolidated Balance Sheet:				
Prepaid benefit cost	**$ 396**	$ 141	**$ –**	$ –
Intangible assets	**–**	1	**–**	–
Accrued benefit liability	**(261)**	(372)	**(825)**	(810)
Accumulated other comprehensive income	**22**	8	**–**	–
Net amounts recognized	**$ 157**	$ (222)	**$(825)**	$(810)
Selected information for plans with accumulated benefit obligation in excess of plan assets:				
Projected benefit obligation	**$ (419)**	$ (307)	**$(911)**	$(834)
Accumulated benefit obligation	**$ (252)**	$ (193)	**$(911)**	$(834)
Fair value of plan assets	**$ 51**	$ 36	**$ –**	$ –

In 1999, as a result of the bottling transactions, $717 million of pension benefit obligation and $205 million of postretirement benefit obligations were assumed by bottling affiliates. In addition, bottling affiliate plans assumed ownership of $659 million of pension assets. The net gain on the bottling transactions includes a curtailment/settlement net loss of $52 million.

Weighted-average pension assumptions at end of year:

	2001	2000	1999
Discount rate for benefit obligation	**7.4%**	7.7%	7.7%
Expected return on plan assets	**9.8%**	9.9%	10.0%
Rate of compensation increase	**4.6%**	4.5%	4.5%

The discount rate assumption used to compute the postretirement benefit obligation at year end was 7.5% in 2001 and 7.8% in 2000.

Pension Assets

The pension plan assets are principally invested in stocks and bonds. These assets include approximately 4.7 million shares of PepsiCo common stock with a fair value of $227 million in 2001 and $214 million in 2000. Subsequent to the measurement date of September 30, 2001, 0.8 million shares of PepsiCo common stock were purchased and, during 2000, 1.8 million shares were sold. A one-percentage point decrease in our expected return on assets would have increased our net periodic pension cost by approximately $31 million in 2001.

Health Care Cost Trend Rates

An average increase of 7.5% in the cost of covered postretirement medical benefits is assumed for 2002. This average increase is then projected to decline gradually to 4.5% in 2008 and thereafter. Generally, our costs are capped at a specified dollar amount.

Assumed health care cost trend rates have a significant effect on the amounts reported for postretirement medical plans. A one-percentage point change in assumed health care costs would have the following effects:

	1% Increase	1% Decrease
2001 service and interest cost components	$ 7	$ (6)
2001 accumulated benefit obligation	$61	$(52)

Note 20 – Commitments, Contingencies and Leases

Contingent liabilities primarily reflect guarantees to support financial arrangements of certain unconsolidated affiliates, including the unconditional guarantee for $2.3 billion of Bottling Group, LLC's long-term debt. We believe that the ultimate liability, if any, in excess of amounts already recognized arising from such claims or contingencies is not likely to have a material adverse effect on our results of operations, financial condition or liquidity.

In March 2000, we entered into a 10-year lease for office space to be constructed in Chicago, Illinois. The new Chicago office is currently in development and is expected to be completed in 2002. Our obligations under the lease are contingent upon completion of the building and satisfaction of certain other obligations by the lessor.

Certain equipment and operating properties are rented under non-cancelable and cancelable operating leases and may provide for renewal options or escalation clauses. Total rent expense under operating leases was $165 million in 2001, $171 million in 2000 and $137 million in 1999. The following is a schedule of future minimum annual rentals on non-cancelable operating leases, in effect as of December 29, 2001:

	2002	2003	2004	2005	2006	Thereafter	Total
Total payments	$138	$111	$95	$57	$42	$162	$605

Note 21 – Business Segments

In early 1999, in contemplation of the separation from PepsiCo of our bottling operations, we completed a reorganization of our beverage businesses and presented our operating results for 1999 consistent with the new beverage organization. Therefore, the results of previously consolidated bottling operations in which we now own an equity interest through the applicable transaction closing dates in 1999 are presented separately with the first quarter 1999 equity income or loss of other unconsolidated bottling affiliates. From the applicable transaction closing dates in 1999, the equity income of those previously consolidated bottling operations and the equity income or loss of other unconsolidated bottling affiliates from the second quarter of 1999 are presented separately below operating profit in the Consolidated Statement of Income. The combined results of our six ongoing reportable segments are referred to as New PepsiCo. The North American segments include the United States and Canada.

The accounting policies of the segments are the same as those described in Note 1. Merger-related costs and other impairment and restructuring charges are not included in segment results. All intersegment net sales and expenses are immaterial and have been eliminated in computing net sales and operating profit.

Frito-Lay North America

Frito-Lay North America (FLNA) manufactures, markets, sells and distributes salty, sweet and grain-based snacks. Products manufactured and sold include Lay's potato chips, Doritos and Tostitos tortilla chips, Cheetos cheese flavored snacks, Ruffles potato chips, Fritos corn chips, a variety of dips and salsas, Quaker Chewy granola bars, Rold Gold pretzels, Sunchips multigrain snacks and Funyuns onion flavored rings.

Frito-Lay International

Frito-Lay International (FLI) manufactures, markets, sells and distributes primarily salty and sweet snacks. Products include Sabritas snack foods and Alegro and Gamesa sweet snacks in Mexico, Walkers snack foods in the United Kingdom and Smith's snack foods in Australia. Frito-Lay International also includes non-snack products, such as cereals that are not material.

Pepsi-Cola North America

Pepsi-Cola North America (PCNA) markets, promotes and manufactures concentrates for Pepsi, Mountain Dew, MUG, Sierra Mist, Slice and other brands for sale to franchised bottlers. It also sells syrups for these brands to national fountain accounts. Pepsi-Cola North America receives a royalty fee for licensing the processing, distribution and sale of Aquafina bottled water; manufactures, markets and distributes ready-to-drink tea and coffee products through joint ventures with Lipton and Starbucks; and manufactures and sells SoBe and Dole beverages for distribution and sale through our franchise bottling system.

Gatorade/Tropicana North America

Gatorade/Tropicana North America (GTNA) produces, markets, sells and distributes Gatorade sports drinks, Tropicana Pure Premium, Tropicana Season's Best, Tropicana Twister and Dole juices.

PepsiCo Beverages International

PepsiCo Beverages International (PBI) manufactures concentrates of Pepsi, 7UP, Mirinda, KAS, Mountain Dew and other brands internationally for sale to franchised and company-owned bottlers. PBI also produces, markets, sells and distributes Gatorade sports drinks as well as Tropicana and other juices. In addition, PBI operates bottling plants and distribution facilities in certain international markets for the production, distribution and sale of company-owned and licensed brands.

Quaker Foods North America

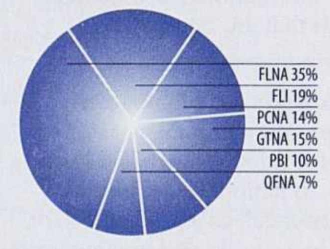
Quaker Foods North America (QFNA) manufactures, markets and sells ready-to-eat cereals, hot cereals, flavored rice and pasta products, mixes and syrups, hominy grits and cornmeal in North America. Products manufactured and sold include Quaker oatmeal, Cap'n Crunch and Life ready-to-eat cereals, Rice-A-Roni products, Aunt Jemima mixes and syrups and Quaker grits.

Fiscal Year

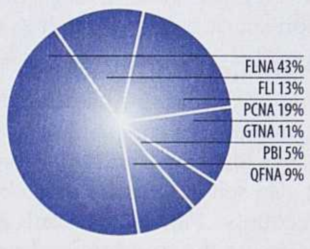
Comparisons of 2000 to 2001 and 1999 are affected by an additional week of results in the 2000 reporting period. The estimated impact of the fifty-third week on 2000 segment results is as follows:

	Net Sales	Operating Profit
Frito-Lay North America	$164	$ 40
Frito-Lay International	61	10
Pepsi-Cola North America	36	13
Gatorade/Tropicana North America	33	5
	$294	68
Corporate unallocated		(6)
		$ 62

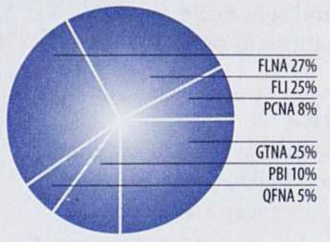
Net Sales by Segment



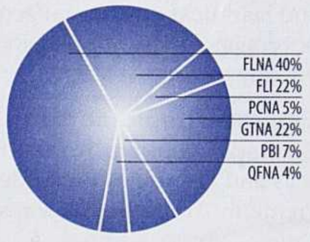
Operating Profits by Segment



Assets by Segment



Capital Spending by Segment



Business Segments

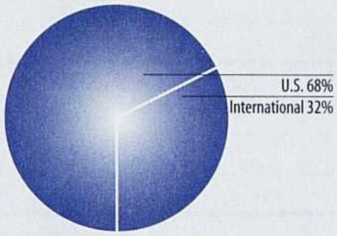
	2001	2000	1999
Net Sales			
Worldwide Snacks			
– Frito-Lay North America	**$ 9,374**	$ 8,971	$ 8,232
– Frito-Lay International	**5,130**	4,875	4,274
Worldwide Beverages			
– Pepsi-Cola North America	**3,842**	3,289	2,605
– Gatorade/Tropicana North America	**4,016**	3,841	3,452
– PepsiCo Beverages International	**2,582**	2,531	2,407
Quaker Foods North America	**1,991**	1,972	1,993
Combined Segments	**26,935**	25,479	22,963
Quaker divested businesses	**–**	–	7
Bottling Operations/Investments	**–**	–	2,123
	$26,935	$25,479	$25,093
Operating Profit			
Worldwide Snacks			
– Frito-Lay North America	**$ 2,056**	$ 1,915	$ 1,679
– Frito-Lay International	**627**	546	455
Worldwide Beverages			
– Pepsi-Cola North America	**927**	833	751
– Gatorade/Tropicana North America	**530**	500	433
– PepsiCo Beverages International	**221**	169	108
Quaker Foods North America	**415**	392	363
Combined Segments	**4,776**	4,355	3,789
Merger-related costs	**(356)**	–	–
Other impairment and restructuring charges	**(31)**	(184)	(73)
Corporate [(a)]	**(368)**	(353)	(286)
Bottling Operations/Investments	**–**	–	53
	$ 4,021	$ 3,818	$ 3,483
Total Assets			
Worldwide Snacks			
– Frito-Lay North America	**$ 4,623**	$ 4,282	$ 4,146
– Frito-Lay International	**4,381**	4,352	4,425
Worldwide Beverages			
– Pepsi-Cola North America	**1,325**	836	729
– Gatorade/Tropicana North America	**4,328**	4,143	3,927
– PepsiCo Beverages International	**1,747**	1,923	1,988
Quaker Foods North America	**917**	952	1,036
Combined Segments	**17,321**	16,488	16,251
Quaker divested businesses	**–**	–	2
Corporate [(b)]	**1,927**	1,737	1,226
Bottling Operations/Investments	**2,447**	2,532	2,469
	$21,695	$20,757	$19,948

Business Segments (continued)

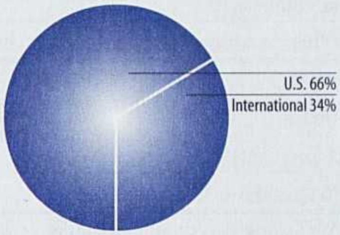
	2001	2000	1999
Amortization of Intangible Assets			
Worldwide Snacks			
– Frito-Lay North America	**$ 7**	$ 7	$ 8
– Frito-Lay International	**46**	46	46
Worldwide Beverages			
– Pepsi-Cola North America	**19**	2	2
– Gatorade/Tropicana North America	**69**	68	69
– PepsiCo Beverages International	**16**	16	16
Quaker Foods North America	**8**	8	8
Combined Segments	**165**	147	149
Bottling Operations/Investments	**–**	–	44
	$ 165	$ 147	$ 193
Depreciation and Other Amortization Expense			
Worldwide Snacks			
– Frito-Lay North America	**$ 377**	$ 374	$ 345
– Frito-Lay International	**187**	182	158
Worldwide Beverages			
– Pepsi-Cola North America	**64**	94	72
– Gatorade/Tropicana North America	**129**	118	107
– PepsiCo Beverages International	**99**	111	104
Quaker Foods North America	**43**	51	53
Combined Segments	**899**	930	839
Corporate	**18**	16	10
Bottling Operations/Investments	**–**	–	114
	$ 917	$ 946	$ 963
Capital Spending			
Worldwide Snacks			
– Frito-Lay North America	**$ 514**	$ 524	$ 485
– Frito-Lay International	**291**	278	295
Worldwide Beverages			
– Pepsi-Cola North America	**70**	59	22
– Gatorade/Tropicana North America	**289**	261	216
– PepsiCo Beverages International	**95**	98	128
Quaker Foods North America	**57**	96	58
Combined Segments	**1,316**	1,316	1,204
Corporate	**8**	36	42
Bottling Operations/Investments	**–**	–	95
	$1,324	$1,352	$1,341
Investments in Unconsolidated Affiliates			
Frito-Lay International	**$ 361**	$ 373	$ 284
Pepsi-Cola North America	**25**	32	50
Gatorade/Tropicana North America	**10**	13	17
PepsiCo Beverages International	**6**	6	4
Quaker Foods North America	**–**	1	1
Combined Segments	**402**	425	356
Corporate	**22**	22	22
Bottling Operations/Investments	**2,447**	2,532	2,469
	$2,871	$2,979	$2,847

	2001	2000	1999
Equity Income/(Loss) and Transaction Gains/(Losses)			
Frito-Lay International	**$ 32**	$ 26	$ 3
Pepsi-Cola North America	**40**	33	31
Gatorade/Tropicana North America	**(3)**	–	1
PepsiCo Beverages International	**3**	2	1
Quaker Foods North America	**(8)**	(4)	–
Combined Segments	**64**	57	36
Bottling Operations/Investments [c]	**160**	130	1,076
	$224	$ 187	$1,112

Net Sales



Long-Lived Assets



Geographic Areas

	2001	2000	1999
Net Sales			
United States	**$18,215**	$17,051	$15,406
International	**8,720**	8,428	7,564
Combined Segments	**26,935**	25,479	22,970
Bottling Operations/Investments	**–**	–	2,123
	$26,935	$25,479	$25,093
Long-Lived Assets [d]			
United States	**$ 9,689**	$ 9,285	$ 9,093
International	**4,899**	4,966	5,099
Combined Segments	**$14,588**	$14,251	$14,192

(a) Corporate expenses include unallocated corporate headquarters expenses and costs of centrally managed initiatives and insurance programs, foreign exchange transaction gains and losses and certain one-time charges.

(b) Corporate assets consist principally of cash and cash equivalents, short-term investments primarily held outside the U.S., property, plant and equipment and other investments in unconsolidated affiliates.

(c) Includes our share of the net earnings or losses from our bottling equity investments and any gains or losses from disposals, as well as other transactions related to our bottling investments. Includes in 1999, a gain of $1 billion ($270 after-tax or $0.15 per share) related to our PBG and PepsiAmericas bottling transactions.

(d) Long-lived assets represent net property, plant and equipment, net intangible assets and investments in unconsolidated affiliates.

Note 22 – Selected Quarterly Financial Data

(unaudited)

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2001	2000(g)	**2001**	2000(g)	**2001**	2000(g)	**2001**	2000(g)
PepsiCo	**$4,539**	4,191	**5,281**	4,928		4,909		6,410
Quaker	**1,227**	1,172	**1,514**	1,398		1,475		996
Adjustments (a)	**(436)**	(422)	**(82)**	(76)		37		461
Net sales	**$5,330**	4,941	**6,713**	6,250	**6,906**	6,421	**7,986**	7,867
PepsiCo	**$2,748**	2,514	**3,250**	3,037		3,044		3,900
Quaker	**677**	649	**846**	761		831		512
Adjustments (a)	**(240)**	(229)	**(52)**	(45)		7		272
Gross profit	**$3,185**	2,934	**4,044**	3,753	**4,178**	3,882	**4,774**	4,684
Merger-related costs (b)	**$ –**	–	**–**	–	**235**	–	**121**	–
Quaker	**$ 4**	173	**5**	4		–		6
Adjustments (a)	**–**	(172)	**(1)**	167		6		–
Other impairment and restructuring charges (c)	**$ 4**	1	**4**	171	**13**	6	**10**	6
PepsiCo	**$ 498**	422	**652**	563		587		611
Quaker	**109**	2	**170**	151		159		48
Adjustments (a)	**(37)**	72	**(24)**	(120)		9		39
Net income	**$ 570**	496	**798**	594	**627**	755	**667**	698
Net income per common share-basic (d)	**$ 0.33**	0.28	**0.45**	0.34	**0.35**	0.43	**0.38**	0.40
Net income per common share-diluted (d)	**$ 0.32**	0.28	**0.44**	0.33	**0.34**	0.42	**0.37**	0.39
Cash dividends declared per common share(e)	**$ 0.14**	0.135	**0.145**	0.14	**0.145**	0.14	**0.145**	0.14
Stock price per share (f)								
High	**$49.50**	38.63	**46.61**	42.50	**47.99**	47.06	**50.46**	49.94
Low	**$40.25**	29.69	**40.90**	31.56	**43.12**	39.69	**45.76**	41.31
Close	**$43.85**	33.00	**43.26**	41.25	**47.40**	42.31	**49.05**	49.56

(a) Adjustments reflect the impact of changing Quaker's fiscal calendar to conform to PepsiCo's, conforming the accounting policies of the two companies applicable to interim periods, and certain reclassifications for gross profit and other impairment and restructuring charges.

(b) Merger-related costs in 2001 (Note 2):

	Third Quarter	Fourth Quarter
Pre-tax	**$ 235**	**$ 121**
After-tax	**$ 231**	**$ 91**
Per share	**$0.13**	**$0.05**

(c) Other impairment and restructuring charges (Note 3):

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000
Pre-tax	**$ 4**	$ 1	**$ 4**	$ 171	**$ 13**	$ 6	**$ 10**	$ 6
After-tax	**$ 2**	$ –	**$ 3**	$ 103	**$ 8**	$ 4	**$ 6**	$ 4
Per share	**$ –**	$ –	**$ –**	$0.06	**$0.01**	$ –	**$ –**	$ –

(d) The net income per common share amounts prior to the effective date of the merger are calculated by (1) combining the weighted average of pre-merger PepsiCo and Quaker common stock after adjusting the number of shares of Quaker common stock to reflect the exchange ratio of 2.3 shares of PepsiCo common stock for each share of Quaker common; and (2) dividing the combined net income by the result in (1) above.

(e) Cash dividends declared per common share are those of pre-merger PepsiCo prior to the effective date of the merger.

(f) Represents the composite high and low sales price and quarterly closing prices for one share of PepsiCo's common stock. Pre-merger amounts are those of PepsiCo prior to the effective date of the merger.

(g) Fiscal year 2000 consisted of fifty-three weeks and 1999 consisted of fifty-two weeks. The impact for the fourth quarter and full year to net sales was an estimated $294, to operating profit was an estimated $62, and to net income was an estimated $44 or $0.02 per share.

Management's Responsibility for Financial Statements

To Our Shareholders:

Management is responsible for the reliability of the consolidated financial statements and related notes. The financial statements were prepared in conformity with generally accepted accounting principles and include amounts based upon our estimates and assumptions, as required. The financial statements have been audited by our independent auditors, KPMG LLP, who were given free access to all financial records and related data, including minutes of the meetings of the Board of Directors and Committees of the Board. We believe that our representations to the independent auditors are valid and appropriate.

Management maintains a system of internal controls designed to provide reasonable assurance as to the reliability of the financial statements, as well as to safeguard assets from unauthorized use or disposition. The system is supported by formal policies and procedures, including an active Code of Conduct program intended to ensure employees adhere to the highest standards of personal and professional integrity. Our internal audit function monitors and reports on the adequacy of and compliance with the internal control system, and appropriate actions are taken to address significant control deficiencies and other opportunities for improving the system as they are identified. The Audit Committee of the Board of Directors consists solely of directors who are not salaried employees and who are, in the opinion of the Board of Directors, free from any relationship that would interfere with the exercise of independent judgment as a committee member. The Committee meets during the year with representatives of management, including internal auditors and the independent accountants to review our financial reporting process and our controls to safeguard assets. Both our independent auditors and internal auditors have free access to the Audit Committee.

Although no cost-effective internal control system will preclude all errors and irregularities, we believe our controls as of December 29, 2001 provide reasonable assurance that the financial statements are reliable and that our assets are reasonably safeguarded.

Peter A Bridgman

Peter A. Bridgman
Senior Vice President and Controller

Indra Nooyi

Indra K. Nooyi
President and Chief Financial Officer

Independent Auditors' Report

Board of Directors and Shareholders
PepsiCo, Inc.:

We have audited the accompanying Consolidated Balance Sheet of PepsiCo, Inc. and Subsidiaries as of December 29, 2001 and December 30, 2000 and the related Consolidated Statements of Income, Cash Flows and Common Shareholders' Equity for each of the years in the three-year period ended December 29, 2001. These consolidated financial statements are the responsibility of PepsiCo, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PepsiCo, Inc. and Subsidiaries as of December 29, 2001 and December 30, 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 29, 2001, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

KPMG LLP
New York, New York
February 6, 2002

Selected Financial Data

(in millions except per share amounts, unaudited)	**2001** [(a)(b)]	2000 [(b)(c)]	1999 [(b)(d)]	1998 [(b)(e)]	1997 [(b)(g)]
Net sales	**$26,935**	25,479	25,093	27,191	25,933
Income from continuing operations	**$ 2,662**	2,543	2,505	2,278	561
Income per common share – continuing operations – basic	**$ 1.51**	1.45	1.41	1.27	0.30
Income per common share – continuing operations – diluted	**$ 1.47**	1.42	1.38	1.23	0.30
Cash dividends declared per common share [(f)]	**$ 0.575**	0.555	0.535	0.515	0.49
Total assets	**$21,695**	20,757	19,948	25,170	22,798
Long-term debt	**$ 2,651**	3,009	3,527	4,823	5,834

As a result of the bottling deconsolidation in 1999 and the Tropicana acquisition late in 1998, the data provided above is not comparable. In 1997, we disposed of our restaurants segment and accounted for the disposal as discontinued operations. Accordingly, all information has been restated for 1997.

(a) Includes merger-related costs of $356 ($322 after-tax and $0.18 per share).

(b) Includes other impairment and restructuring charges of $31 ($19 after-tax or $0.01 per share) in 2001, $184 ($111 after-tax or $0.06 per share) in 2000, $73 ($45 after-tax or $0.02 per share) in 1999, $482 ($379 after-tax or $0.21 per share) in 1998 and $331 ($265 after-tax or $0.14 per share) in 1997.

(c) The 2000 fiscal year consisted of fifty-three weeks compared to fifty-two weeks in our normal fiscal year. The fifty-third week increased 2000 net sales by an estimated $294 and net income by an estimated $44 (or $0.02 per share).

(d) Includes a net gain on bottling transactions of $1.0 billion ($270 after-tax or $0.15 per share) and a tax provision related to the PepCom transaction of $25 (or $0.01 per share), and a Quaker favorable tax adjustment of $59 (or $0.03 per share).

(e) Includes a tax benefit of $494 (or $0.27 per share) related to final agreement with the IRS to settle a case related to concentrate operations in Puerto Rico.

(f) Cash dividends per common share are those of pre-merger PepsiCo prior to the effective date of the merger.

(g) Includes a loss on a business divestiture of $1.4 billion ($1.1 billion after-tax or $0.61 per share).

Common Stock Information

Stock Trading Symbol – PEP

Stock Exchange Listings

The New York Stock Exchange is the principal market for PepsiCo common stock, which is also listed on the Amsterdam, Chicago, Swiss and Tokyo Stock Exchanges.

Shareholders

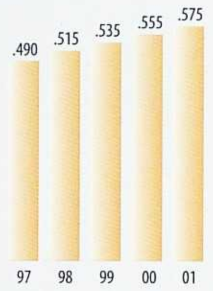
At year-end 2001, there were approximately 227,000 shareholders of record.

Dividend Policy

Quarterly cash dividends are usually declared in November, January, May and July and paid at the beginning of January and the end of March, June and September. The dividend record dates for these payments are December 7, 2001, March 8, June 7 and September 6, 2002. Quarterly cash dividends have been paid since PepsiCo was formed in 1965. Amounts in the chart reflect pre-merger PepsiCo for the dates prior to the merger with The Quaker Oats Company.

Cash Dividends Declared

Per Share (In $)



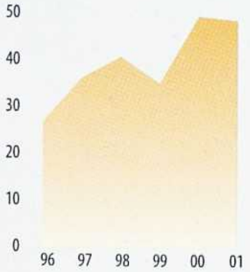
Stock Performance

PepsiCo was formed through the 1965 merger of Pepsi-Cola Company and Frito-Lay, Inc. A $1,000 investment in our stock made December 31, 1996 was worth about $1,928 on December 31, 2001, assuming the reinvestment of dividends. This performance represents a compounded annual growth rate of 14%.

The closing price for a share of PepsiCo common stock on the New York Stock Exchange was the price as reported by Bloomberg for the years ending 1996-2001. These amounts have been restated for the spin-off of the restaurant business and reflect the closing price of pre-merger PepsiCo prior to the merger with The Quaker Oats Company. Past performance is not necessarily indicative of future returns on investments in PepsiCo common stock.

Year-end Market Price of Stock

(In $) Based on calendar year-end.



Shareholder Information

Annual Meeting

The Annual Meeting of Shareholders will be held at Frito-Lay Corporate Headquarters, 7701 Legacy Drive, Plano, Texas, on Wednesday, May 1, 2002 at 10:00 a.m. local time. Proxies for the meeting will be solicited by an independent proxy solicitor. This Annual Report is not part of the proxy solicitation.

Inquiries Regarding Your Stock Holdings

Registered Shareholders (shares held by you in your name) should address communications concerning statements, dividend payments, address changes, lost certificates and other administrative matters to:

The Bank of New York
Shareholder Services Department
P.O. Box 11258
Church Street Station
New York, NY 10286-1258
Telephone: (800) 226-0083
E-mail: shareowner-svcs@bankofny.com
Web site: http://stockbny.com

or

Manager Shareholder Relations
PepsiCo, Inc.
Purchase, NY, 10577
Telephone: (914) 253-3055

In all correspondence or telephone inquiries, please mention PepsiCo, your name as printed on your stock certificate, your Social Security number, your address and telephone number.

Beneficial Shareholders (shares held by your broker in the name of the brokerage house) should direct communications on all administrative matters to your stockbroker.

SharePower Participants (employees with SharePower options) should address all questions regarding your account, outstanding options or shares received through option exercises to:

Merrill Lynch/SharePower
Stock Option Unit
1600 Merrill Lynch Drive
Mail Stop 06-02-SOP
Pennington, NJ 08534
Telephone: (800) 637-6713
(U.S., Puerto Rico and Canada)
(609) 818-8800 (all other locations)

In all correspondence, please provide your account number (for U.S. citizens, this is your Social Security number), your address, your telephone number and mention PepsiCo SharePower. For telephone inquiries, please have a copy of your most recent statement available.

Employee Benefit Plan Participants:

Common Stock Purchase Program
Computershare
P.O. Box 240
Denver, CO 80201
Attention: PepsiCo Stock Purchase Program
Telephone: (800) 637-6713
(U.S., Puerto Rico and Canada)
(732) 469-8877 (all other locations)

PepsiCo 401(k) Plan
Fidelity Investments
P.O. Box 9029
Boston, MA 02205
Telephone: (800) 883-4015
(877) 833-9900 (outside U.S.)
Please have a copy of your most recent statement available when calling with inquiries.

Shareholder Services

Dividend Reinvestment Plan

A brochure explaining this convenient plan, for which PepsiCo pays all administrative costs, is available from our transfer agent:

The Bank of New York
Dividend Reinvestment Department
P.O. Box 1958
Newark, NJ 07101-9774
Telephone: (800) 226-0083

Direct Deposit of Dividends

Information on the Direct Deposit service is available from our transfer agent:

The Bank of New York
Shareholder Services Department
P.O. Box 11258
Church Street Station
New York, NY 10286-1258
Telephone: (800) 226-0083

Financial and Other Information

PepsiCo's 2002 quarterly earnings releases are expected to be issued the week of April 22, July 22, October 7, 2002 and February 3, 2003.

Earnings and other financial results, corporate news and other company information are available on PepsiCo's web site:

http://www.pepsico.com

Copies of PepsiCo's SEC reports on Forms 8-K, 10-K and 10-Q and quarterly earnings releases are available free of charge. Contact PepsiCo's Manager of Shareholder Relations at (914) 253-3055.

If you have questions regarding PepsiCo's performance, contact:

Kathleen Luke
Vice President, Investor Relations
PepsiCo, Inc.
Purchase, NY 10577
Telephone: (914) 253-3691

Independent Auditors

KPMG LLP
345 Park Avenue
New York, NY, 10154-0102
Telephone: (212) 758-9700

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Total Return to Shareholders

93%

Stock appreciation plus dividends reinvested
December 1996 to December 2001